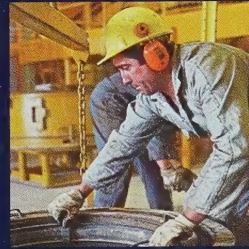
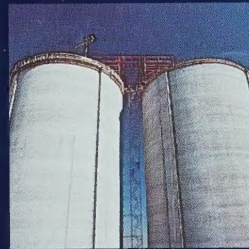
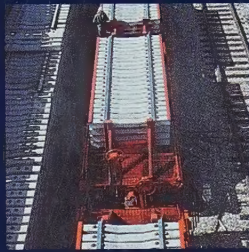


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GENSTAR



ANNUAL REPORT 1977

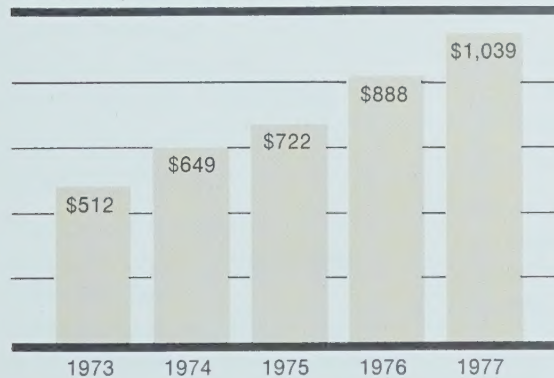
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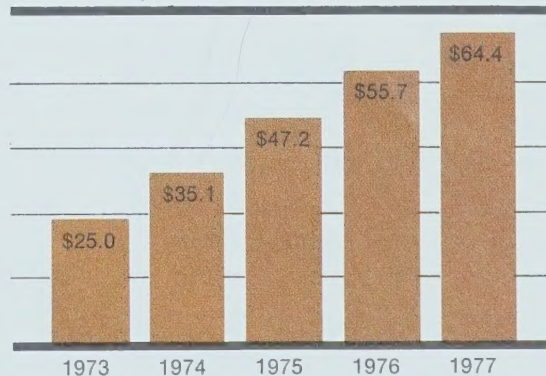
FINANCIAL HIGHLIGHTS

	1977	1976	Increase
	(millions of dollars)		
Revenues	\$1,039.3	\$888.3	17.0%
Funds from Operations	108.6	93.8	15.8%
Depreciation, Depletion and Amortization	34.7	32.3	7.4%
Net Income	64.4	55.7	15.6%
Dividends on Common Shares	17.8	14.7	21.1%
Net Income per Common Share — Basic	\$5.06	\$ 4.63	9.3%
— Fully Diluted	4.65	4.18	11.2%
Dividends per Common Share	1.42	1.25	13.6%

Revenues (millions of dollars)



Net income (millions of dollars)



Annual Meeting

The Annual General Meeting of shareholders of Genstar Limited will be held on Wednesday, May 17th, 1978 at 11:00 a.m. in the Auditorium, Mezzanine 2 of The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Canada.

Form 10-K

Genstar Limited is incorporated under the laws of Canada. The company's shares are traded on the New York Stock Exchange among others and the company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Public Relations Department of the company.

Version Française

Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des Relations Publiques de la Société.

What is Genstar ?

Genstar Limited is a diversified operating corporation which manufactures cement, building materials, chemicals and fertilizers, and is engaged in housing, land development, commercial property development and management, construction, tug and barge transportation, shipbuilding and ship repairs, financial services and venture capital investment.

Address

Genstar Limited
Suite 4105
One Place Ville Marie
Montreal, Canada
H3B 3R1
Tel: (514) 879-1270

DIRECTORS

*Charles de Bar
Deputy Chairman of the Board
Genstar Limited

Yves Boël
Managing Director
Sofina, S.A.
(Investment Company)

James W. Burns
President and
Chief Executive Officer
The Great-West Life
Assurance Company

Frank S. Capon**
Consultant

*F. Campbell Cope, Q.C.
Partner
Ogilvy, Montgomery, Renault,
Clarke, Kirkpatrick,
Hannon & Howard
(Barristers and Solicitors)

*August A. Franck
Chairman of the Board
Genstar Limited

Kelly H. Gibson
Chairman of the Board
Foothills Pipe Lines
(Yukon) Ltd.
(Gas Pipeline Company)

John B. Hamilton, Q.C.**
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

Louis A.-Lapointe, Q.C.
Company Director

Raymond Lavoie**
Vice Chairman of the Board,
President and
Chief Executive Officer
Crédit Foncier Franco-Canadien
(Financial Institution)

Walter F. Light
President
Northern Telecom Limited
(Telecommunications Equipment
Manufacturer)

*Angus A. MacNaughton
Vice Chairman of the Board and
Chief Executive Officer
Genstar Limited

Dr. Gordon Marshall
Director
The Associated Portland Cement
Manufacturers Limited

*W. Earle McLaughlin
Chairman and
Chief Executive Officer
The Royal Bank of Canada

John D. Milne
Managing Director
The Associated Portland Cement
Manufacturers Limited

Max Nokin
Honorary Governor
Société Générale de Belgique
(Investment Company)

Robert G. Rogers
Chairman and
Chief Executive Officer
Crown Zellerbach Canada Limited
(Pulp and Paper Products)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and
Chief Executive Officer
Genstar Limited

William S. Ziegler
Consultant

OFFICERS

August A. Franck
Chairman of the Board

Charles de Bar
Deputy Chairman
of the Board

Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

Bernard T. Johnson
Executive Vice President

Nicholas A. Liberatore
Executive Vice President

George F. Michals
Senior Vice President

Beverley A. Monkman
Senior Vice President

George W. Rutledge
Vice President

Lorimer E. Whitworth
Vice President

A. James Unsworth
Vice President and
General Counsel

Hugh W. McAdams
Treasurer

E. Claude Molleur
Secretary

Richard D. Paterson
Comptroller

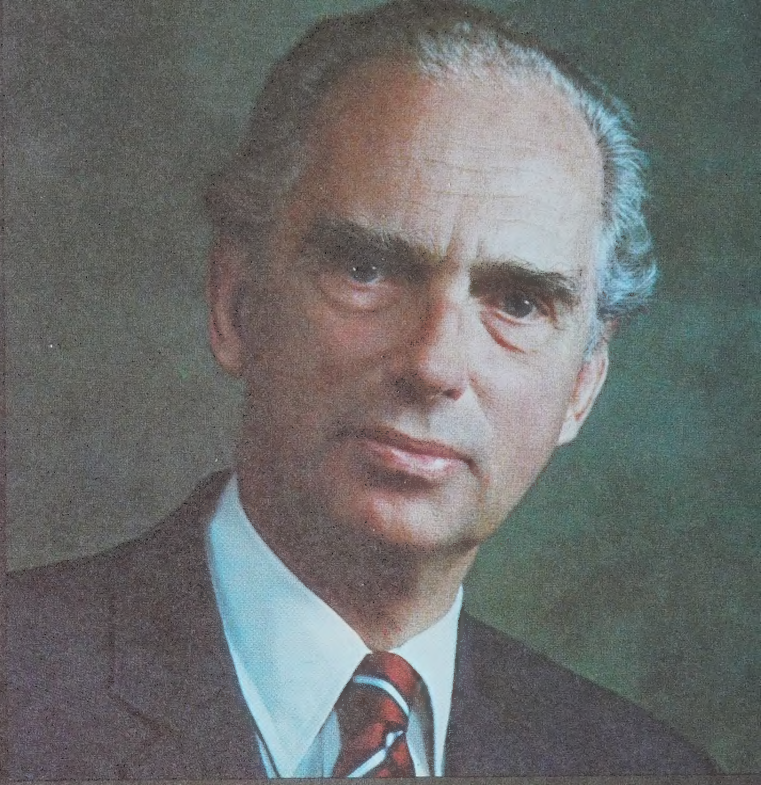
Eric A. Bower
Assistant Comptroller

J. Anthony Davies
Assistant Treasurer

Stuart Mackay-Smith
Assistant Secretary

*Member of the Executive Committee

**Member of the Audit Committee



August A. Franck
Chairman of the Board

Charles de Bar
Deputy Chairman of the Board

Angus A. MacNaughton
Vice Chairman of the Board and
Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

REPORT OF THE DIRECTORS

Income

Genstar's net income rose to \$64.4 million in 1977, up from \$55.7 million in 1976. A strong demand for housing in California during most of the year, increased land sales in Western Canada, and generally improved results in the building materials and Western Canadian marine operations were primarily responsible for the gain. Poor results from Montreal-based cement, building materials and construction activities and from international marine operations, and absorption of interest and administrative costs associated with the major expansion of cement capacity in Vancouver, were negative influences during the year.

Basic per share earnings were \$5.06 compared to \$4.63 a year ago. On a fully diluted basis, earnings amounted to \$4.65 per share compared to \$4.18 in 1976. The average number of common shares outstanding in 1977 was 12,556,000 compared to 11,749,000 in the prior year. During the fourth quarter of the year, the Board of Directors increased the common dividend to 37 cents per share quarterly from 35 cents per share, the maximum increase allowed under Canadian anti-inflation regulations. This is the seventh successive year in which dividends have been increased.

Revenues in 1977 were \$1,039 million compared to \$888 million in 1976.

Significant Events

Among the more significant events at Genstar in 1977 were the following:

- The sale, for \$150 million, of a substantial part of the income producing residential and commercial properties owned by Abbey Glen Property Corporation, as well as several other properties. Proceeds of these sales were used to reduce debt.
- The further expansion of our activities in the United States through the establishment of a new home-building unit in Houston, Genstar Homes of Texas, Inc., and the start of work on a new residential development near Miami, Florida.
- The acquisition of the shares of Gulf of Georgia Towing Co. Ltd., of Vancouver, which expands and complements Genstar's existing West Coast operations through the addition of Gulf's 15 tugs and 57 barges.
- The continued major expansion of cement production facilities in Vancouver and Edmonton to meet the increasing demand anticipated during the coming years.
- The listing of Genstar's common shares on the Swiss Exchanges in Zurich, Geneva and Basel, providing the company with broader exposure in international financial markets.

Capital Expenditures

Capital expenditures in 1977 rose to \$107 million from \$90 million in the previous year, with a substantial amount going towards continuing construction of the new Vancouver cement plant and expansion of the Edmonton cement plant.

In 1978, it is anticipated that capital expenditures will amount to \$93 million. Nearly half this amount is earmarked again for cement expansion programs now in progress. The remainder will be spent on continuing modernization of plants and production facilities and replacement of mobile equipment.

Labor Relations

Labor relations were satisfactory throughout the year and there were no significant work stoppages either in our own operations or in those of our major customers. Generally soft economic

conditions in Canada and high unemployment tempered union demands, resulting in a greater measure of labor peace throughout the country.

The total number of Genstar employees in Canada decreased in 1977 as a result of cutbacks in British Columbia and Quebec while the number of employees in the United States increased as operations there were expanded.

Anti-Inflation Program

For the past two years we have been critical of the federal government's anti-inflation program. Our views have centered around the fact that the current program has failed to provide enough incentives, particularly tax incentives, to stimulate either consumer spending or business investment.

We suggested in our message last year, a termination of this program and, in conjunction, a program to reduce the cost of government. The decision to deregulate and to lift controls during 1978 is a positive step, but we believe that an immediate termination would have ended some of the fears of continued government intervention in an already weak national economy.

We remain concerned with the failure of governments at all levels to reduce spending meaningfully, and with the current poor climate for business investment in Canada. While this environment continues, business will look at other investment areas where growth potential is more attractive.

Outlook

Despite these problems, growth opportunities continue to exist in the Western and Northern areas of Canada where the major portion of Genstar's operations are located. The next few years, in fact, could see further expansion in those regions with increasing development of the country's natural resources. Our major housing and land development activities there should remain strong, and the outlook for our construction, cement and marine operations also appears favorable. The attractiveness of the opportunities that exist in these regions, however, is drawing new competitors into the area. While we believe we will share in the substantial growth of these markets, we will be faced with increasing competition.

The company's diversified activities in Canada provide a solid base of continuing earnings but the scope for further expansion appears limited in the immediate future because of continuing uncertainties about the Canadian economy. It is from this base that we can confidently turn our attention to other opportunities.

Foremost among these are the opportunities we believe exist for Genstar in a number of fields in the United States. While we have been active in California since 1970, it is apparent that opportunities for expansion into a number of other states, especially in the "Sunbelt" area of the West and South, could prove beneficial. We look for positive results from increased activities in Florida, Texas and California.

We are currently expanding our activities in the financial services field, particularly in the Western United States, and our efforts in this direction will continue during 1978.

Board of Directors

During the year, Mr. John S. Duthie resigned after three years as a member of the Board of Directors and we sincerely thank him for his wise counsel and guidance during this period.

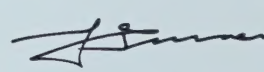
We take this opportunity to welcome to the Board Dr. Gordon Marshall, Chief Executive of Blue Circle International and a director of The Associated Portland Cement Manufacturers Limited of London, England.

The growth that Genstar achieved last year, and its record of progress over the past decade, could not have taken place were it not for the loyal efforts of Genstar employees throughout the entire organization. Their dedication is recognized and deeply appreciated by the Board.

On behalf of the Board



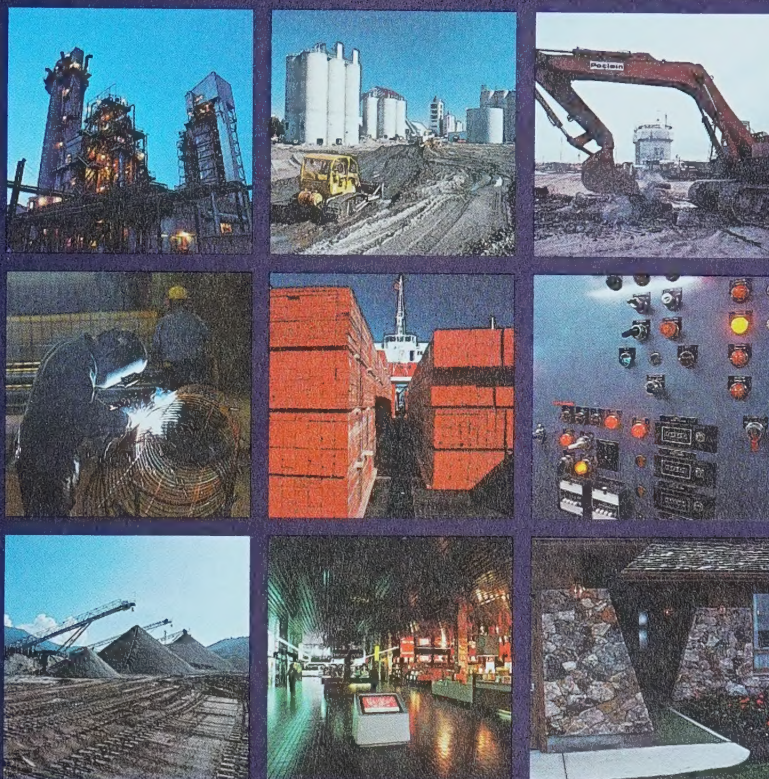
Angus A. MacNaughton
Vice Chairman



Ross J. Turner
President

Montreal, Canada
February 22, 1978

GENSTAR OPERATIONS



BUILDING MATERIALS



The continuing strength of the building materials market in Alberta, an improvement in operating results in British Columbia and excellent results from the company's gypsum wallboard operations were primarily responsible for the overall increase in net income for the division. The federal anti-inflation program, however, together with a slow economy in some regions, had a negative effect on profit margins in several product areas.

While sales were strong in Alberta, new competitors coming into the province, attracted by increasing activity in the resource development

field, exerted pressure on margins for most products. The market in British Columbia was generally slow throughout the year but a concerted cost-cutting drive resulted in improved operating results. The relatively high level of activity in the Montreal area in the first half, resulting from a resurgence in the housing market, was reversed in the latter part of the year. Volumes in the last quarter were very low and declining.

Sales of precast concrete products were strong in all areas under increasingly competitive market conditions. The Prairie Provinces were active as expected and British Columbia showed improvements. Post-tensioning of field structures and concrete utility poles gained further acceptance in the marketplace.

It is expected that the Alberta economy will show continued strength in 1978. British Columbia should maintain its current level, but demand in both Saskatchewan and Manitoba may weaken. Pressure on profit margins is expected to continue throughout the year.

Further gains in the strong 1977 market for gypsum wallboard in the Prairie Provinces are forecast for 1978. It is also expected that improvements in the British Columbia market during the latter half of the year will continue through 1978 as exports of wallboard to the states of Washington and Alaska give added strength to sales from the Vancouver plant.

Forecast expenditures of \$15 million for 1978 reflect a moderation in the capital spending plans of the division for the next several years. This results from the completion of current expansion and modernization programs.

Construction of the first phase of a new precast plant in Calgary will provide the capacity to meet the growing demand in Southern Alberta and provision has been made for expansion of these facilities as future markets develop.

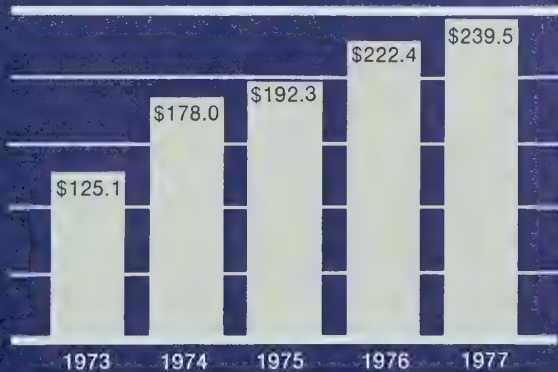
The \$2.2 million expansion of facilities at the Edmonton gypsum wallboard plant was completed on time and within budget during the first quarter of 1978.

Left: Ready-mix concrete trucks get an early morning start on deliveries.

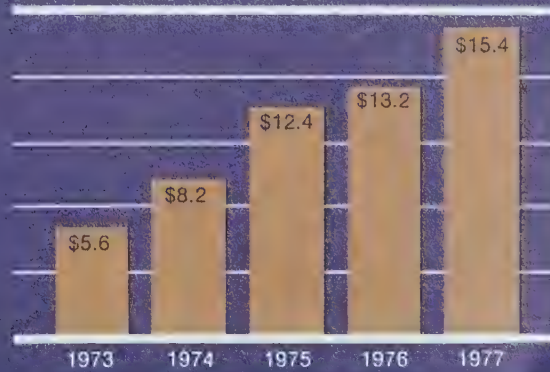
Right: Aggregate production facilities near Calgary, Alberta.



Revenues (millions of dollars)



Net Income (millions of dollars)



CEMENT



Net income from the company's cement division declined in 1977 from 1976 as profit margins could not be maintained because of anti-inflation regulations. Moreover, interest and administrative costs related to the new Vancouver plant and the Edmonton plant expansion were charged directly to income as incurred. For the same reasons, cement operations will not reach full potential in 1978, but the benefits resulting from the efficiencies of such modern plants will be fully evident in future years.

The new Vancouver plant, with a capacity of 1.1 million tons per year, is expected to be completed on schedule by mid-year and within budget.

The new plant will replace the 65-year old, 570,000-ton capacity plant at Bamberton, on Vancouver Island. Some of the facilities at Bamberton will be converted to serve as a distribution center for Vancouver Island customers as well as a shipping location for raw materials to the Vancouver plant.

Construction work on the final phase of a \$78 million expansion of the Edmonton cement plant began early in 1978. Expenditures on previous phases of the program completed early this year totalled \$19 million. On completion in 1980, the expansion will increase annual capacity at this facility to 1,445,000 tons per year, more than doubling current capacity. The expanded capacity of the Edmonton plant will end the need to import cement into Alberta from other areas and, therefore, better serve this growing market.

The 1980 completion date for the expansion of the Edmonton cement plant is targeted to coincide with the expected increase in demand resulting from the development of Alberta's natural resources. These activities, including the development of conventional oil and gas reserves, heavy oil, and bitumen from the Athabasca Tar Sands, will reach a peak in the early 1980's. Petrochemical, power plant and coal developments and the proposed construction of the Alaska Highway pipeline will also add to a significant increase in demand for cement.

The company purchased a coal mine near Edmonton in 1977 and has applied to Alberta's Energy Resources Conservation Board for a mining development permit. Plans to convert the Edmonton plant from natural gas to coal firing by 1980 are also proceeding on schedule.

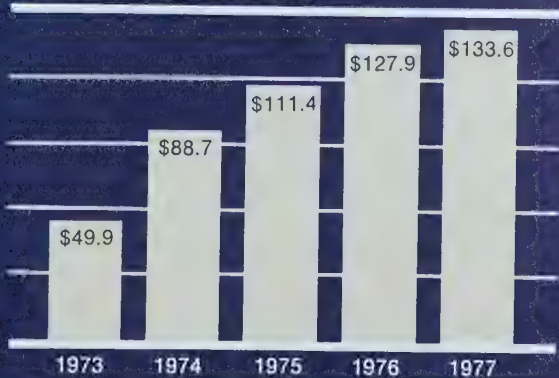
Demand is expected to be high in Alberta in 1978. Production volumes will also increase as the new Vancouver plant begins operation in mid-year. Exports to the United States from several plants, including tonnages specified in long-term contracts with two major U.S. cement producers, are expected to total 250,000 tons in 1978 and about 500,000 tons per year thereafter.

Left: Unit train bearing new Genstar Cement symbol at Edmonton plant.

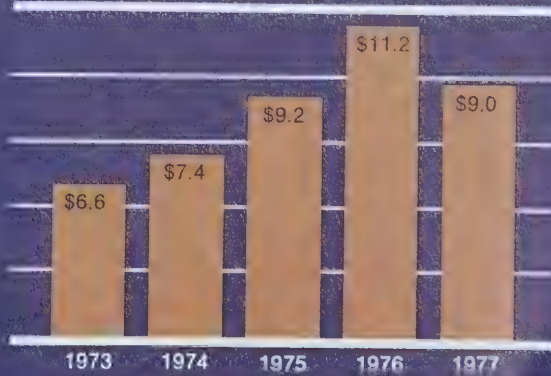
Right: Aerial view of new Vancouver cement plant under construction.



Revenues (millions of dollars)



Net income (millions of dollars)



HOUSING AND LAND DEVELOPMENT



The housing and land development division experienced another good year, particularly in Alberta and California where markets were strong. Contribution to divisional net income by the California housing operations showed substantial improvement over 1976.

While unit sales in Western Canada during 1977 were 2,700 compared to 2,450 in 1976, there was increasing pressure on profit margins during the year. Single family housing starts in the major urban areas of Western Canada were down in 1977.

The Manitoba and Saskatchewan markets remained steady and growth in these provinces, if unspectacular, can be expected to benefit from the general growth of Western Canada in 1978 and beyond.

The housing market in British Columbia has been slow for several years but there are signs that markets in this resource-rich province are strengthening gradually and should improve further as the province's population growth continues well above the Canadian average.

Pressure on profit margins and increased competition have prompted a withdrawal from some of the company's smaller markets and, concurrently, greater concentration on gaining a larger share of major Western Canadian urban markets where the company has been successful in the past.

House sales in California totalled 1,000 units in 1977 compared to 800 in 1976. The market showed exceptional strength during the year and housing starts were up 18 per cent over 1976. Personal income is forecast to rise about 10 per cent in California in 1978 while the rate of inflation is expected to remain at last year's level. Housing markets should be strong again this year but are not expected to match the 1977 record.

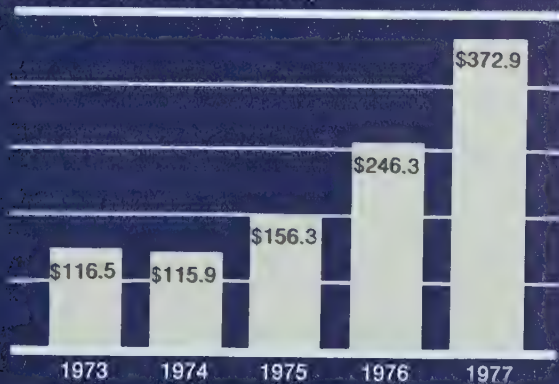
The company actively pursued markets in the Southern United States and established a new company in Houston, Genstar Homes of Texas, Inc., which will begin selling housing units this year. Other potentially strong housing markets in the Western and Southern states are also being studied.

Left: A Genstar land development project in Burlington, Ontario.

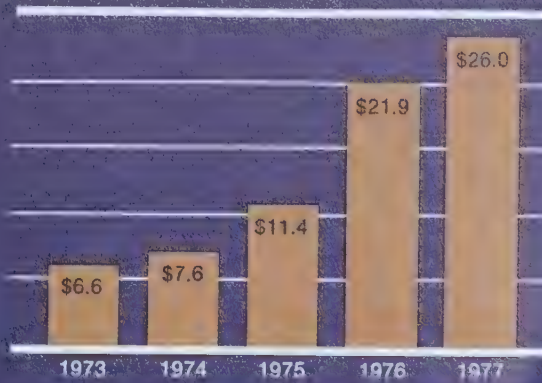
Right: Broadmoor Park, a company housing development in Orange, California.

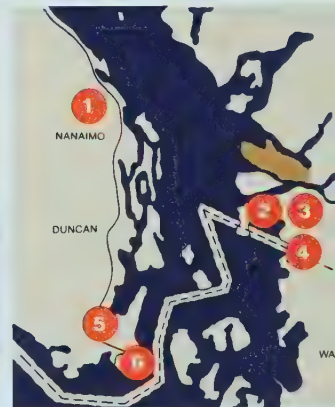
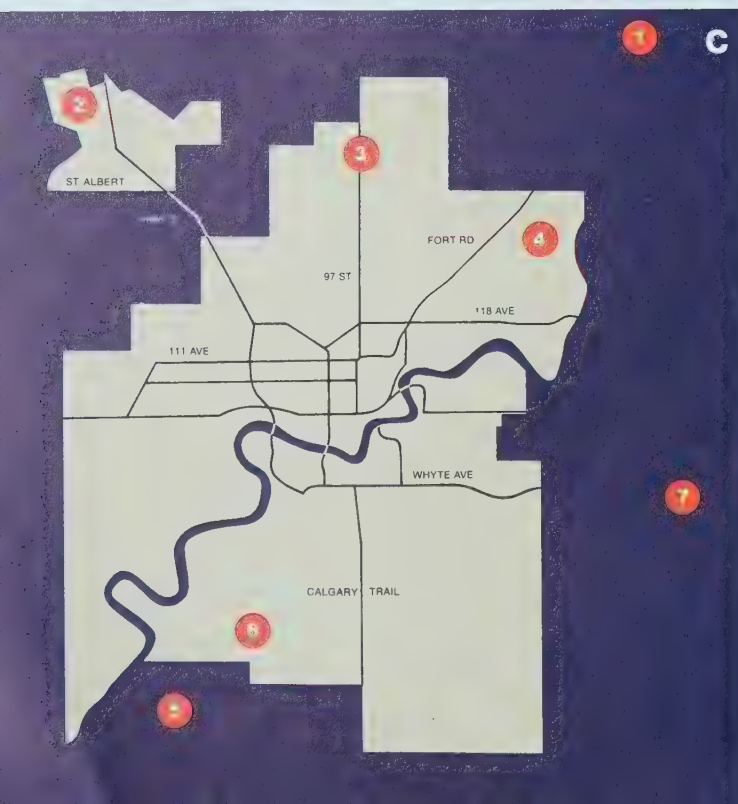


Revenues (millions of dollars)



Net Income (millions of dollars)





a Winnipeg

- 1 St. James Assiniboia
- 2 Maples
- 3 Parkway Village
- 4 Charleswood
- 5 Tuxedo
- 6 Valley Gardens
- 7 Mission Gardens
- 8 Lakeside Meadows
- 9 St. Norbert

b Calgary

- 1 Clearview
- 2 Calgary North
- 3 Marlborough
- 4 Abbey Dale
- 5 Oakridge
- 6 Midnapore
- 7 Burns Ranch
- 8 Deer Run
- 9 Calgary S.E.

c Edmonton

- 1 Fort Saskatchewan
- 2 Lacombe Park
- 3 Castle Downs
- 4 Clareview
- 5 South Edmonton
- 6 Terwillegar-Riverbend
- 7 Sherwood Park

d Southern Ontario

- 1 Heritage Glen
- 2 Brant Hills
- 3 Oakville

e Vancouver Region

- 1 Deep Bay
- 2 Delta
- 3 West Surrey
- 4 South Surrey
- 5 Tod Inlet
- 6 Metchosin

f Pacific Region

- 1 Eagle Ridge
- 2 Harbour Village
- 3 Mary Hill
- 4 Newfield
- 5 Valley View
- 6 North Langley
- 7 Maple Ridge
- 8 Mission

Land Development

The sustained boom in the Alberta economy resulted in a brisk year in that province, while activity was good in British Columbia and moderate in Manitoba.

Activity also picked up in Ontario where a total of 435 residential lots were developed and sold in Burlington. Elsewhere in the province, over 1,000 acres of residential, commercial and industrial land is in the zoning stage at Oakville. Development is expected to proceed over the next several years.

During the year, the company was involved in a number of major development projects. To expedite the development program new divisional offices were opened in Regina and Vancouver. Genstar's land bank in Canada totalled about 30,400 acres at the end of 1977, with a further 2,800 acres under option.

Development of 1,100 acres of residential, commercial and industrial land in Dade County, Florida began in 1977 with installation of water and sewage systems. First sales of lots for an ultimate 8,000 residential units will begin in 1978. The development, called "The Hammocks", includes several man-made recreational lakes, a 40-acre commercial site and 100 acres of industrial land.

In California, Genstar sold 330 residential lots in 1977 and the volume of sales should increase in future years.

The company's land bank, in the United States, including additions made in 1977, now totals 5,450 acres.

CONSTRUCTION



Restraint in capital spending on construction projects in the public sector, and strong competition in all parts of the country are reflected in this division's income performance in 1977.

The company moved into the field of industrial construction in a more substantial way during the past year and completed several projects including a water treatment plant and oil storage and dock facilities at Churchill, in Northern Manitoba as well as foundation work for a concentrator building at Snow Lake, Manitoba.

Work was also completed at a mine site development project in Northern Ontario and on hydro-electric transmission line contracts in Manitoba and Saskatchewan. Construction by the company of the last section of the Dempster highway link between Inuvik in the Northwest Territories and the Alaska highway in the Yukon is underway.

The engineering and industrial division also continued work throughout the year on the company's new cement plant in Vancouver and on the expansion of the Edmonton cement plant.

Genstar is a one-third partner in a \$155 million joint venture contract for work on Hydro Quebec's James Bay project. The contract is for the construction of a major earth and rock-fill dam which will take approximately four years to complete.

The company's increased concentration on industrial construction and participation in United States markets are expected to add momentum in 1978.

The construction services division benefited from strong markets in Alberta during the year. The market for municipal services, including the installation of water and sewage systems, streets and roads, remained about the same in Manitoba. Competition for municipal services work was strong throughout Western Canada and along with poor weather conditions resulted in some erosion of profit margins.

This division provides about 60 per cent of the company's total construction revenues. Approximately one-third of this work is performed for other Genstar divisions, including servicing of residential development land.

These operations had a total backlog of \$110 million at year end, excluding work on the expansion of the company's Edmonton cement plant.

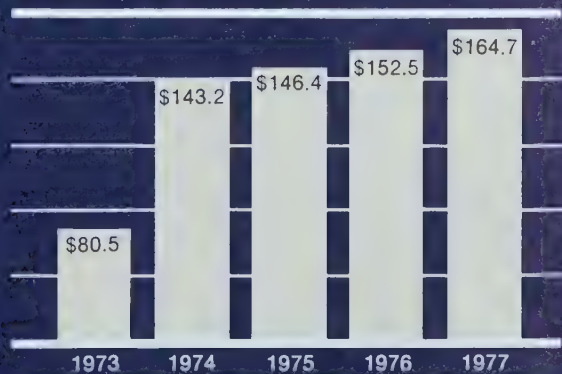
Uncertain economic conditions in Quebec were reflected in a lower volume of construction activity in the province. However, an improved backlog of \$38 million will result in increased activity in 1978 and this should have a positive effect on the overall revenues and income of the division.

Left: A Genstar crew installing municipal services.

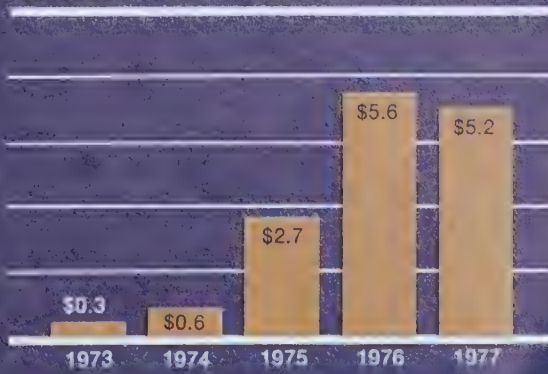
Right: Earth moving is part of almost every construction project.



Revenues (millions of dollars)



Net income (millions of dollars)



MARINE



The performance of the Canadian operations of the company's marine division exceeded expectations in 1977, but the decline in net income for the division as a whole is attributable to the international joint venture operations in generally depressed markets.

Canadian West Coast operations profited from a modest improvement in the forest products industry.

During the year, Genstar acquired the Gulf of Georgia Towing Co. Ltd. of Vancouver. The purchase added 15 tugs and 57 barges bringing

the company's West Coast fleet to 55 tugs and 280 barges.

Results of the joint venture which provides tug and barge transportation services for resource development projects in the Arctic were better than anticipated.

With the current strengthening of the West Coast economy, the performance of the Canadian operations is expected to continue to improve during 1978. Genstar is well positioned to compete in the Pacific Coastal areas as well as maintain its present strong position in serving its traditional markets.

Several factors have been responsible for the disappointing performance of the company's international marine operations. The joint venture company which provides a roll-on, roll-off barge service between Marseille, France and Yanbu, on the Red Sea encountered intense competition from increased trailer and container shipping capacity.

Cargo handling operations in Saudi Arabia were not as active as anticipated as volumes generated by joint venture operations in the area fell below minimum contract levels.

The amount of equipment committed to the joint venture operations in the North Sea has been reduced as a result of limited activity during the latter part of 1977 and continuing into 1978.

The worldwide surplus of shipping capacity and consequent dramatic decline in shipping rates as well as decreased volumes available to the company's international joint venture operations, have prompted a cost reduction program which will continue throughout 1978.

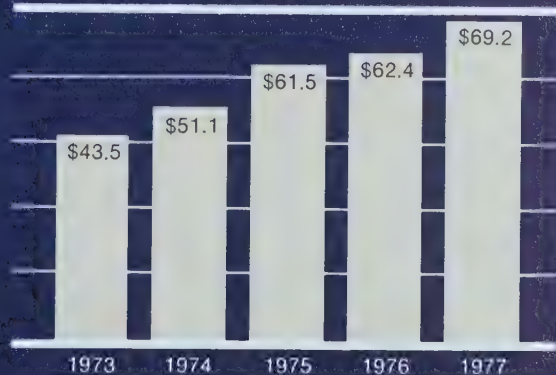
With economy measures in place and increased efforts in marketing, some progress should be made in international marine operations. Overall marine division results are expected to show an improvement over 1977.

Left: A company tug towing a wood chip barge in Vancouver.

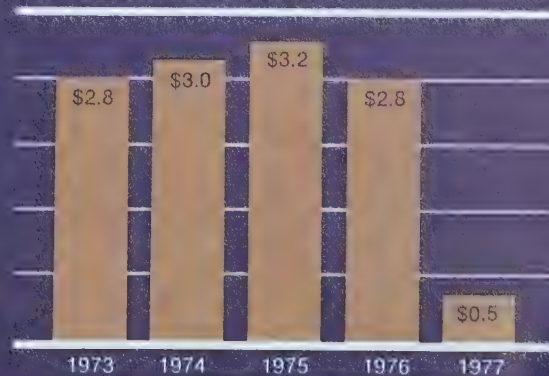
Right: Genstar barge with a jack-up drill rig on 77-day, 15,000-mile voyage from Japan to Mexico.



Revenues (millions of dollars)



Net income (millions of dollars)



CHEMICALS AND FERTILIZERS



The chemicals and fertilizers division, despite strong competition resulting from a surplus of nitrogen capacity in world markets and particularly in North America, showed substantial improvement over 1976. Increases in the cost of natural gas could not be fully reflected in selling prices of chemicals.

While selling prices for fertilizers were under pressure, particularly in the Ontario market, results were as expected. Fertilizer sales were strong in the State of Maine and in Quebec where

the company continues to hold a significant share of the market.

The company continued to shift its marketing emphasis from the Canadian fertilizer field to serving a broad section of Canadian and North-eastern United States industrial and fertilizer markets and has become, as a result, a major supplier to the pulp and paper, mining, resin, textiles, feed and explosives industries. Expansion and modernization programs carried out at the company's manufacturing complex in Maitland, Ontario, have been aimed at providing the basis for these expanding industrial chemical markets.

An increase in sales and earnings is expected in 1978 from a majority-owned subsidiary which supplies blasting agents to mining operations in the U.S. Midwest. The combination of technical expertise available in this company and the ability of Genstar to supply chemical products could result in increasing sales of blasting agents in an expanding market in certain states.

The energy situation in North America has a major influence on the company's ability to be a reliable supplier of nitrogen derivatives and thus a key supplier to the industrial market Genstar serves. At this time it appears that Genstar's supply of natural gas is more secure than that of U.S. competitors and will assist in the company's goal of increased sales in the Northeastern United States.

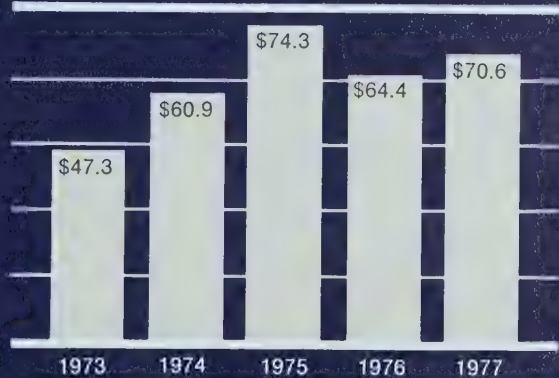
1978 will be a difficult year due to the over-capacity in the nitrogen industry resulting in continuing price pressures in the marketplace for both chemical and fertilizer products. However, the investments made at the Maitland chemical plant to provide world scale production of nitric acid, ammonium nitrate and nitrogen solutions and the efficient fertilizer production units operated by the company should enable Genstar to continue to improve both revenues and income over the next few years.

Left: Bulk warehouse storage of urea at Maitland, Ontario.

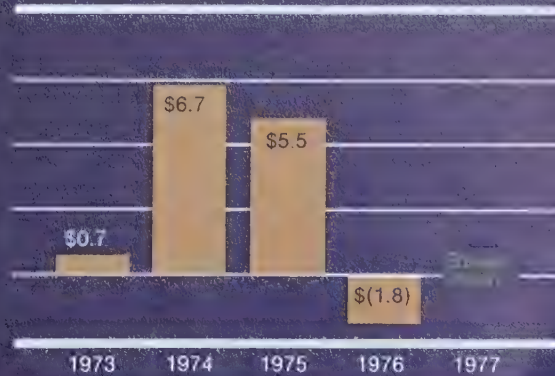
Right: Aerial view of the company's chemical complex at Maitland, Ontario.



Revenues (millions of dollars)



Net income (millions of dollars)



FINANCIAL SERVICES AND INVESTMENTS

In 1977, Genstar entered into a number of residential and commercial real estate joint ventures in California, mainly as a limited partner, providing financial, marketing and administrative assistance. During the year 900 single family and condominium units were sold through joint venture partnerships. Income from these activities in 1977 was encouraging and another good year is expected in 1978.

Net income and the value of venture capital portfolio investments continued to improve in 1977. An additional \$2.7 million was invested during the year bringing total investments at year end to \$14.7 million in 32 companies. The outlook for 1978 is good.

In 1977 the company became a one-third partner in a new international marine financing company with offices in London and Bermuda.

Genstar's insurance operations have expanded recently to include third party insurance. The profitability of these activities has improved yearly and is expected to continue to do so in the future.

Since 1970, the company has been engaged in providing title insurance and escrow services in the San Francisco Bay area of California. This activity has grown steadily over the years and earnings have expanded substantially. There remains room for growth in this business, both through acquisition and from further development of present operations.

In addition to the above, Genstar is looking at the possible acquisition of companies engaged in thrift and loan, mortgage banking, specialty leasing activities and other types of financial services. Genstar has continued to broaden its participation in the financial services business over the years and earnings from these activities are making an increasing contribution to overall net income.



The financial services and investments category includes the management of revenue properties in Canada, real estate joint venture activities, venture capital investments, and financial services in California and internationally.

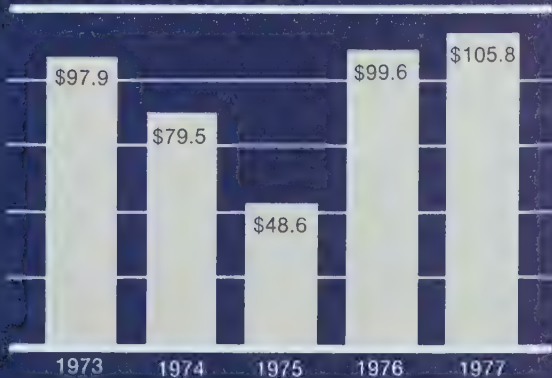
A substantial part of the residential and commercial properties in the company's portfolio was sold during the year, but an interest has been retained in eight income properties in Western Canada and an organization has been set up to manage this business.

Left: Testing an electronic printer in a Genstar venture capital company.

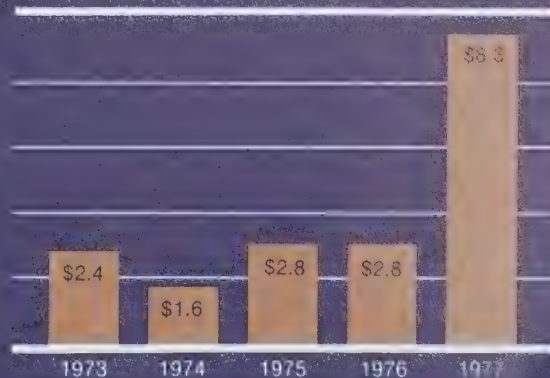
Right: Shopping center interior in Edmonton, Alberta.



Revenues (millions of dollars)



Net income (millions of dollars)



GENSTAR

FINANCIAL REVIEW



SUMMARY OF FINANCIAL HIGHLIGHTS

For the five years ended December 31, 1977
(millions of Canadian dollars)

	1977	1976	1975	1974	1973	Five Year Compound Growth Rates
Revenues	\$1,039.3	\$888.3	\$721.5	\$648.6	\$511.8	23%
Costs and expenses						
Cost of sales and services ..	735.2	631.1	527.2	487.4	392.5	
Selling, general and administrative	99.0	81.9	61.3	50.2	38.7	
Depreciation, depletion and amortization	34.7	32.3	26.5	24.2	20.0	
Interest	49.4	40.2	21.9	17.8	12.6	
	918.3	785.5	636.9	579.6	463.8	
Income before income taxes	121.0	102.8	84.6	69.0	48.0	33%
Provision for income taxes ..	56.6	47.1	37.4	33.9	23.0	
Net income	\$ 64.4	\$ 55.7	\$ 47.2	\$ 35.1	\$ 25.0	35%
Per common share						
Net Income —						
Canadian Method						
Basic	\$ 5.06	\$ 4.63	\$ 4.03	\$ 3.06	\$ 2.52	26%
Fully diluted	4.65	4.18	3.61	2.71	2.18	28%
United States Method						
Primary	5.01	4.58	4.01	3.05	2.51	26%
Fully diluted	4.73	4.23	3.69	2.77	2.24	28%
Dividends	1.42	1.25	1.20	1.05	0.80	17%
Return on net assets	8.5%	7.5%	10.4%	9.0%	7.6%	
Capitalization ratios						
Total debt to equity	62:38	67:33	49:51	49:51	47:53	
Long-term debt to equity	50:50	52:48	39:61	33:67	39:61	
Other statistics (millions except for employees)						
Working capital	\$108.5	\$114.7	\$103.1	\$ 44.2	\$ 66.0	
Funds from operations	108.6	93.8	77.1	64.6	45.6	
Capital expenditures	107.1	89.7	67.6	55.8	24.4	
Fixed assets	671.8	563.8	490.5	443.8	403.6	
Common shares outstanding						
Actual	12.9	11.9	11.5	11.1	10.8	
Average	12.6	11.7	11.4	11.0	9.9	
Number of employees	11,007	10,695	10,125	10,181	10,040	

Operating Results

Net income in 1977 was \$64.4 million or \$5.06 per common share compared to \$55.7 million or \$4.63 per common share in 1976. The average number of common shares outstanding, the basis of calculating income per common share, increased to 12.6 million in 1977 from 11.7 million in 1976. Basic and fully diluted net income per common share increased 9 per cent and 11 per cent respectively, compared with 1976. Revenues increased 17 per cent to \$1,039 million in 1977.

Page 34 of this report sets out a summary of the accounting policies used by the corporation. We believe that the policies are appropriate for a diversified corporation such as Genstar and result in balance sheet and income statements which are conservatively stated. The following significant items are reflected in the 1977 statement of income under these accounting policies:

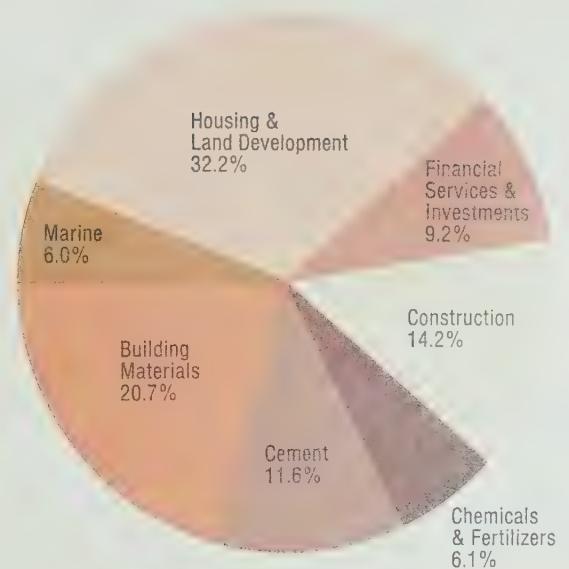
- a charge to income for interest expense on the cost of construction-in-progress on the Vancouver cement plant and expansion of the Edmonton cement plant of approximately \$2.8 million after tax.
- gains on sales of revenue properties of \$2.0 million net of tax. The properties had been identified for disposition at the time of their acquisition in 1976.
- a charge to income for carrying costs of land inventory and development land of approximately \$5.8 million after tax.
- foreign exchange loss of \$2.3 million after tax representing the unrealized loss on translating the accounts of foreign subsidiaries into Canadian dollars. Total unrealized foreign exchange translation losses of \$4.3 million have been charged to income since the introduction of F.A.S.B. rule number 8 in 1975.
- gains on sales of properties, plants and equipment of \$1.1 million net of tax.

Revenues

In 1977, revenues increased \$151 million. A strong real estate market in California and geographic expansion of the corporation's housing and land development operations

into other counties in that state accounted for a \$51 million increase compared to a \$43 million increase in 1976, when activities were limited to Orange county. Land development revenues in Canada increased \$39 million in 1977 compared to a \$22 million increase in 1976. The rapid development and sale of some of the land which formed part of an acquisition of a subsidiary in mid-1976 accounted for \$34 million of the increase in 1977 and \$14 million in 1976, while revenues from the development and sale of other land in Western Canada owned by Genstar increased by \$5 million in 1977 compared to \$8 million in 1976. Revenue increases in other divisions were generally inflationary in nature in 1977.

Revenues by industrial category — 1977



Cost of sales and services

Cost of sales and services as a percentage of revenues was 71 per cent, the same as in 1976. Increases in costs as a percentage of revenues in 1977 were experienced in the cement, construction and housing operations in Canada and were offset by higher gross margins in the land operations in Canada and the land and housing operations in California.

Expenses

Selling, general and administrative expenses increased \$17.1 million in 1977 (21 per cent) and \$20.6 million (34 per cent) in 1976. Consolidation of the accounts of a subsidiary from mid-1976 accounted for \$2.0 million of the



increase in 1977 and \$7.0 million of the increase in 1976. The balance of the increase in 1977 was as a result of additional staff and costs to expand the California land and housing operations and to administer the construction of the Vancouver cement plant and the capacity increase of the Edmonton cement plant. A cost cutting program throughout the corporation in 1977 resulted in a reduction of selling, general and administrative expenses in the building materials and chemicals and fertilizers divisions and limited increases in other divisions to less than the 1977 inflation rate.

Depreciation, depletion and amortization

Depreciation, depletion and amortization charged to income in 1977 increased by \$2.4 million to \$34.7 million compared to an increase of \$5.8 million in 1976. Depreciation in 1977 increased as a result of a full year's operation of plants and equipment added to the building materials and chemicals and fertilizers divisions and expansion of the fleet of tugs and barges in the marine fleet in the prior year. The sale for \$126 million of income producing properties in 1977 reduced depreciation from this source by \$0.4 million compared to a \$3 million increase in 1976.

Interest

Total interest expense was \$49.4 million in 1977, an increase of \$9.2 million from 1976 compared with an increase of \$18.3 million from 1975 to 1976. The consolidation of the accounts of a subsidiary for a full year in 1977 increased interest by \$4.5 million compared with an increase of \$14.0 million from the same source during the five months of ownership in 1976. The effect of the disposal of income producing properties was apparent in the final quarter of 1977 when total interest was 28 per cent lower than in the same period in 1976.

The balance of the increase in 1977 interest expense was attributable to the financing of larger land and housing inventories in California and the construction of the Vancouver cement plant.

Preferred stock

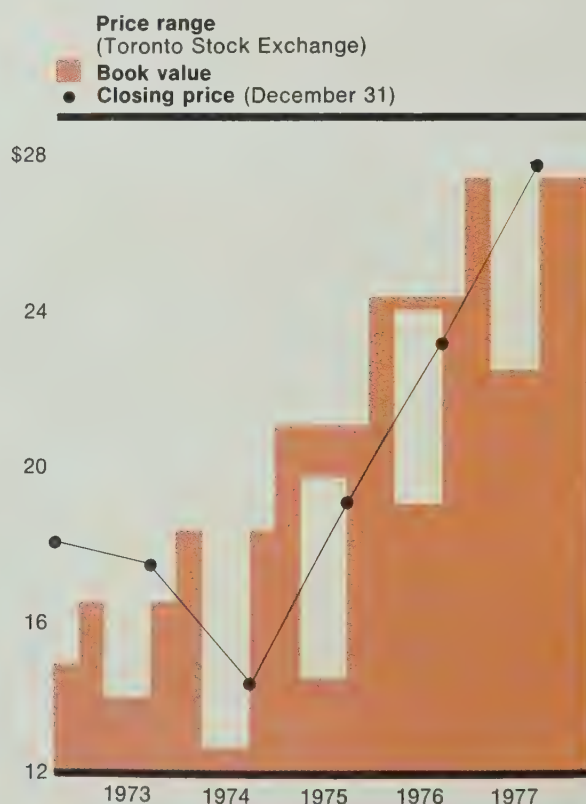
All of the outstanding preferred shares (Series A, B, C, D) were issued pursuant to exchange offers for shares of subsidiaries. The Series B preferred shares are listed on the Montreal and Brussels Stock Exchanges and the Series D are listed on the Toronto, Montreal, Alberta and Vancouver Stock Exchanges. The Series A and C preferred shares are not listed.

The Series B preferred shares are thinly traded and in 1977 the market price ranged from \$23¾ to \$22⅞ on the Montreal Stock Exchange. The Series D preferred shares were listed on February 25, 1977 and trading volume for the balance of 1977 was 70,000 shares. The market price ranged from \$27¾ to \$22½ on The Toronto Stock Exchange.

Common stock

The common shares are listed on the New York, Toronto, Montreal, Alberta, Vancouver, Brussels, Antwerp, Zurich, Geneva and Basel Stock Exchanges. There were 12,877,000 common shares outstanding at December 31, 1977 of which 9,839,000 were registered in the name of the holder and the balance were in bearer form. Quarterly trading volume and market price range information for 1977 and 1976 is included in Note 15 to the Consolidated Financial Statements.

Common stock

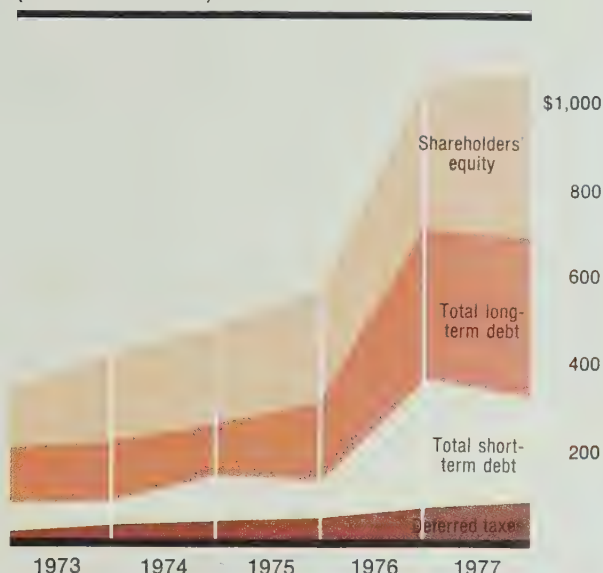


Capitalization

Genstar is capitalized with short and long-term debt, deferred taxes and shareholders' equity. In the five-year period since the beginning of 1973, total capitalization has increased threefold from \$341.7 million to \$1,064.2 million. This capital forms the base upon which return on capital is measured and which is referred to as "return on net assets" in other parts of this report.

Capital structure

(millions of dollars)



Shareholders' equity increased \$231.9 million since 1973, from \$136.3 million to \$368.2 million. Income retained in the business of \$156.7 million, net of dividends, accounted for 68 per cent of the increase with the balance consisting of \$32.4 million in capital stock issued in exchange for shares of subsidiaries

acquired, and \$42.8 million in capital stock issued on conversion of long-term debt, under the stock purchase plan and on the exercise of options and warrants.

Long-term debt increased by \$246.7 million over the five-year period. New public issues accounted for \$125 million or 50 per cent of the new debt with the balance resulting from the consolidation of long-term debt of subsidiaries acquired and term bank loans arranged primarily to purchase shares of subsidiaries.

At the beginning of 1973, the corporation's total debt to equity ratio was 57:43 and long-term debt to equity ratio was 46:54. At the end of 1977, the corporation's total debt to equity ratio was 62:38 and long-term debt to equity ratio was 50:50.

When deferred taxes are included in the equity base, the corporation's total debt to equity ratio would be 57:43 and long-term debt to equity ratio would be 44:56 at the end of 1977 compared to 52:48 and 42:58 at the beginning of 1973.

The results of Genstar's operations and assets employed by each industrial category for the period 1973-1977 are included on pages 30 and 31 of this report. The financing of the assets of each category is from the total capital available to the corporation as a whole. To illustrate how the capital might be allocated to each category, the following table has been prepared based upon financial ratios generally accepted as appropriate for each industry in which Genstar operates.

Industrial Category	Net Assets	Financed by				Ratios			
		Short- Term Debt	Long- Term Debt	Deferred Income Taxes	Equity	Total Debt to Equity		Long-Term Debt to Equity	
						1977	1976	1977	1976
		(millions of dollars)				(per cent)			
Building materials ..	151.2	15.8	42.6	21.3	71.5	45:55	45:55	37:63	38:62
Cement	183.3	13.4	59.1	22.1	88.7	45:55	44:56	40:60	37:63
Housing and land development	434.1	190.4*	134.4	1.2	108.1	75:25	78:22	55:45	62:38
Construction	36.4	6.7	7.9	7.0	14.8	50:50	50:50	35:65	35:65
Marine	103.1	5.1	58.2	12.6	27.2	70:30	75:25	68:32	74:26
Chemicals and fertilizers	56.8	4.0	17.6	8.8	26.4	45:55	45:55	40:60	38:62
Financial services and investments ..	99.3	8.9	43.3	15.6	31.5	62:38	75:25	58:42	51:49
	\$1,064.2	\$244.3	\$363.1	\$88.6	\$368.2	62:38	67:33	50:50	52:48

*includes \$91.2 million of advances relating to housing and land inventories.



Return on Net Assets and on Equity

Return on net assets, which is a measure of after-tax income before interest as a percentage of capital employed, has been used by Genstar for several years as a measurement of performance. In 1977, return on net assets for the corporation was 8.5 per cent compared with 7.5 per cent in 1976. The improvement resulted from the sale of revenue properties offset somewhat by the \$96 million of construction-in-progress on the Vancouver and Edmonton cement plants which provided no income in 1977.

Return on common shareholders' equity was 18.1 per cent in 1977 compared to 18.9 per cent in 1976. The decrease resulted from interest costs on the construction-in-progress on the cement plants.

United States Operations

For several years, Genstar has been active in venture capital, shopping center development and housing businesses in California and the acquisition of Abbey Glen Property Corporation in 1976 provided a presence in the land development business in Florida and New Jersey. In addition, the import-export division has formed a part of United States operations for ten years.

Opportunities for expansion of existing activities into new market areas in the United States have been identified, particularly in the West and South — the "Sunbelt" states. The favorable climatic and economic conditions in this region have created a significant emigration of both industry and population from the cooler, economically mature Northern states, and the future growth rate is expected to be above the national average.

1977 was a good year for Genstar's United States operations. Revenues increased 39 per cent to \$229 million and represented 22 per cent of total revenues compared with 19 per cent in 1976. Net income increased threefold to \$8.4 million, or 13 per cent of total income compared with 5 per cent in 1976.

The following highlighted United States activities in 1977:

- the creation of a separate division investing in real estate joint ventures in the "Sunbelt" states. In these ventures, Genstar generally acts as a financial partner and shares equally in income. At December 31, 1977, there were 31 of these joint ventures.
- the geographic expansion of house building operations from Orange County to the San Francisco and San Diego regions in California and the establishment of Genstar Homes of Texas, Inc. in Houston.
- the sale of serviced housing lots in California as a diversification from the traditional house building operations.
- the preparation of serviced single-family housing lots at Genstar's 1,100-acre land holding in Dade County, Florida. Approximately 350 lots will be available for sale in the first half of 1978.

Capital Expenditures



In the five-year period from 1973 to 1977 capital expenditures for expansion, replacement and environmental projects amounted

to \$345 million, excluding properties, plants and equipment added as part of the acquisition of subsidiaries. These investments included new marine equipment for international and domestic operations, replacement and expansion of concrete block and pipe plants in Western Canada, a concrete rail tie plant in Edmonton, a new gypsum wallboard plant in Vancouver and expansion of the plant at Edmonton, new aggregate plants in British Columbia and the present major cement plant projects in Vancouver and Edmonton. The modernization and expansion of the 5,600-unit fleet of mobile and construction equipment is also included in the total.

In 1978, capital expenditures of \$93 million are planned, primarily for completion of the Vancouver cement plant and expansion of the Edmonton cement plant.

Inflation

Continued inflation has a serious impact on business. The following quotations from the Report of the Ontario Government Committee on Inflation Accounting illustrate some of the impact.

“From 1972 onward the rate of inflation has resulted in a negative ‘real’ return on equity investment.”

“... pre-tax corporation profits adjusted for inflation were a substantially lower share of net national income than as reported in the National Accounts.”

“A growing general awareness of the inflation risk and loss of confidence in business earnings adversely affected the equity markets as a source of available capital.”

The serious overstatement of business profit, using historical costs instead of current values, has fostered demands by consumers for price and profit controls, by labor for higher wages, and by governments for heavy corporation taxes to finance excessive social programs. On the other hand, net real income, after tax, is inadequate to justify major new investment in Canada.

Conventional accounting practices are incapable of adequately reflecting the effect of

inflation on corporate performance and although the accounting professions, governments and business leaders are increasingly aware of the problem, a consensus as to the most effective solution is slow in emerging. Until such consensus is reached Genstar will provide replacement cost information in its 10-K filing with the Securities and Exchange Commission.

In more fundamental terms, however, the capital expenditure program undertaken in the last several years has equipped Genstar with productive capacity sufficient for many years of growth and expansion. The current value of these facilities, particularly those built since 1974, is very close to the historical cost at which they are reflected in the financial statements.

The relative newness of a large portion of Genstar’s fixed investment allows net income as expressed in the financial statements to be more directly comparable to “real” income. Thus in some industrial categories, particularly cement, building materials, construction and marine where large investments have been made in fixed assets during the last few years, and are continuing, Genstar’s performance may not need to be adjusted significantly for the effects of inflation.

In other areas of Genstar business, particularly in land development, the inflationary trends result in profit margins significantly in excess of what “real” income is.

In its internal resource-allocation process, Genstar is placing greater emphasis on “real economic return” rather than profit expectations based on conventional accounting methods. Until this approach is accepted fully by the major beneficiaries of corporate activity — shareholders, employees and governments — as a valid interpretation of economic progress, business will be severely handicapped in its attempt to generate cash flows to finance the building of productive facilities and the generation of new employment.



RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1977
(millions of Canadian dollars)

		REVENUES		
		Third Party	Inter- Category	Total
Building Materials				
1977	.....	\$220.6	\$ 18.9	\$239.5
1976	.....	205.3	17.1	222.4
1975	.....	177.9	14.4	192.3
1974	.....	164.3	13.7	178.0
1973	.....	114.5	10.6	125.1
Cement				
1977	.....	\$ 97.0	\$ 36.6	\$133.6
1976	.....	90.3	37.6	127.9
1975	.....	80.5	30.9	111.4
1974	.....	60.5	28.2	88.7
1973	.....	33.1	16.8	49.9
Housing and Land Development				
1977	.....	\$372.7	\$.2	\$372.9
1976	.....	245.9	.4	246.3
1975	.....	156.3	—	156.3
1974	.....	115.9	—	115.9
1973	.....	116.5	—	116.5
Construction				
1977	.....	\$104.0	\$ 60.7	\$164.7
1976	.....	121.3	31.2	152.5
1975	.....	123.6	22.8	146.4
1974	.....	116.7	26.5	143.2
1973	.....	59.2	21.3	80.5
Marine				
1977	.....	\$ 68.6	\$.6	\$ 69.2
1976	.....	62.0	.4	62.4
1975	.....	61.3	.2	61.5
1974	.....	50.8	.3	51.1
1973	.....	43.3	.2	43.5
Chemicals and Fertilizers				
1977	.....	\$ 70.6	\$ —	\$ 70.6
1976	.....	64.4	—	64.4
1975	.....	74.3	—	74.3
1974	.....	60.9	—	60.9
1973	.....	47.3	—	47.3
Financial Services and Investments				
1977	.....	\$105.8	\$ —	\$105.8
1976	.....	99.1	.5	99.6
1975	.....	47.6	1.0	48.6
1974	.....	79.5	—	79.5
1973	.....	97.9	—	97.9

Cost of Sales	COSTS AND EXPENSES Selling, General and Administrative	Depreciation, Depletion and Amortization	Total	Operating Income	Interest and General Corporate Expenses	Income before Income Taxes	Provision for Income Taxes	Net Income	Net Assets	Return on Net Assets (per cent)
\$178.6	\$ 16.5	\$ 9.2	\$204.3	\$ 35.2	\$ 8.8	\$ 26.4	\$ 11.0	\$ 15.4	\$151.2	12.9
166.5	16.3	7.9	190.7	31.7	8.4	23.3	10.1	13.2	145.0	11.5
143.7	13.2	6.7	163.6	28.7	6.8	21.9	9.5	12.4	134.1	10.8
136.8	13.2	6.3	156.3	21.7	5.7	16.0	7.8	8.2	121.4	8.6
94.2	10.9	5.2	110.3	14.8	3.5	11.3	5.7	5.6	81.3	9.2
\$ 92.4	\$ 11.2	\$ 5.8	\$109.4	\$ 24.2	\$ 8.7	\$ 15.5	\$ 6.5	\$ 9.0	\$183.3	7.1
86.0	10.3	6.0	102.3	25.6	5.8	19.8	8.6	11.2	111.4	13.1
77.6	7.7	5.8	91.1	20.3	4.2	16.1	6.9	9.2	81.1	13.6
58.4	7.2	4.9	70.5	18.2	3.5	14.7	7.3	7.4	77.7	11.4
29.5	2.5	3.1	35.1	14.8	2.2	12.6	6.0	6.6	47.5	15.1
\$264.1	\$ 32.2	\$.9	\$297.2	\$ 75.7	\$ 24.8	\$ 50.9	\$ 24.9	\$ 26.0	\$434.1	8.3
162.9	23.0	1.0	186.9	59.4	16.7	42.7	20.8	21.9	390.6	7.2
107.1	17.3	.8	125.2	31.1	7.6	23.5	12.1	11.4	164.2	9.2
82.5	11.2	.6	94.3	21.6	5.6	16.0	8.4	7.6	118.4	8.1
89.9	8.9	.6	99.4	17.1	3.8	13.3	6.7	6.6	81.6	9.7
\$138.8	\$ 8.1	\$ 5.8	\$152.7	\$ 12.0	\$ 2.2	\$ 9.8	\$ 4.6	\$ 5.2	\$ 36.4	16.8
124.6	8.4	6.5	139.5	13.0	2.1	10.9	5.3	5.6	36.9	17.7
127.0	5.5	6.6	139.1	7.3	2.0	5.3	2.6	2.7	32.1	11.0
128.4	4.8	6.4	139.6	3.6	2.3	1.3	.7	.6	43.8	3.2
68.5	4.0	5.7	78.2	2.3	1.7	.6	.3	.3	38.1	2.8
\$ 46.7	\$ 5.7	\$ 6.8	\$ 59.2	\$ 10.0	\$ 5.9	\$ 4.1	\$ 3.6	\$.5	\$103.1	4.0
42.4	4.7	5.1	52.2	10.2	5.2	5.0	2.2	2.8	94.8	5.0
45.0	4.8	4.2	54.0	7.5	3.5	4.0	.8	3.2	76.7	7.6
36.1	2.8	3.5	42.4	8.7	2.7	6.0	3.0	3.0	53.1	7.8
30.2	3.3	3.2	36.7	6.8	1.5	5.3	2.5	2.8	42.1	8.2
\$ 59.0	\$ 4.9	\$ 3.3	\$ 67.2	\$ 3.4	\$ 3.4	\$ —	\$ —	\$ —	\$ 56.8	2.6
54.9	6.5	2.8	64.2	.2	3.4	(3.2)	(1.4)	(1.8)	59.7	.6
55.1	4.8	2.1	62.0	12.3	2.6	9.7	4.2	5.5	55.2	12.0
40.5	3.2	2.1	45.8	15.1	2.4	12.7	6.0	6.7	42.2	17.3
39.3	2.5	2.2	44.0	3.3	2.0	1.3	.6	.7	42.9	2.3
\$ 72.6	\$ 7.9	\$ 2.5	\$ 83.0	\$ 22.8	\$ 8.5	\$ 14.3	\$ 6.0	\$ 8.3	\$ 99.3	12.3
81.0	4.8	2.7	88.5	11.1	6.8	4.3	1.5	2.8	195.9	3.6
41.0	1.6	.2	42.8	5.8	1.7	4.1	1.3	2.8	28.6	11.9
73.4	1.6	.2	75.2	4.3	2.0	2.3	.7	1.6	35.2	7.4
89.8	2.6	.2	92.6	5.3	1.7	3.6	1.2	2.4	37.6	8.2



INDUSTRIAL CATEGORIES

The operations of each industrial category consist of the following:

Building Materials

The production of a wide variety of building materials and supplies including pre-cast and pre-stressed architectural and structural concrete products, concrete pipe, blocks and railway ties, ready-mix concrete, masonry supplies, gypsum wallboard, and sand, gravel and classified aggregates.

Cement

The manufacture of normal portland and specialized cements.

Housing and Land Development

The development of residential, commercial and industrial land; construction of single-family, duplex and townhouse units; shopping center development; manufacture of pre-assembled sections and component packages for the construction of residential units.

Construction

The construction of hydro-electric power installations, airports, bridges, dams, highways, reservoirs, pumping stations, concrete and asphalt pavements, and sewer and water installations.

Marine

Marine shipdocking, transportation, lighterage, salvage and pollution control services, shipbuilding and repair facilities.

Chemicals and Fertilizers

The manufacture of nitrogen-based industrial and agricultural chemicals and mixed fertilizers.

Financial Services and Investments

The operation of commercial revenue properties and the investment of equity venture capital primarily in new enterprises in high technology fields. The investment, as a financial partner, in joint ventures for the development of residential real estate and the underwriting of commercial and title guarantee, marine and property insurance and marine financing. The import of primary and semi-finished metals for sale to distributors and end-users and the export of industrial products.

Intercategory Revenues

Sales of goods and services between categories are at market prices. Industrial category revenues include intercategory revenues of \$117.0 million in 1977 and \$87.2 million in 1976 which are eliminated from consolidated revenues and cost of revenues in the corporation's consolidated statements of income.

Financial data by geographic area

— United States
— Canada and other
(millions of dollars)

Revenues



1977 — Total \$1,039.3



1976 — Total \$888.3

Operating income



1977 — Total \$183.3



1976 — Total \$151.2

Identifiable assets



1977 — Total \$1,249.2



1976 — Total \$1,205.2

* Includes general corporate assets of \$15.7 million in 1977 and \$16.2 million in 1976.

Government Revenues

Included in 1977 revenues for the building materials and construction categories are \$92.0 million of sales to Canadian federal, provincial and municipal governments and their agencies.

Interest and General Corporate Expenses

Interest and general corporate expenses are allocated in proportion to the average net assets in determining annual net income of each category.

Operating income of the categories is calculated before the deduction of these expenses and, accordingly, is greater than consolidated income before income taxes by \$62.3 million in 1977 and \$48.4 million in 1976.

Net Assets

Net assets comprise the identifiable assets less non-interest bearing liabilities of each category. General corporate assets of \$15.7 million in 1977 and \$16.2 million in 1976 are allocated to each category. Net assets are financed by interest-bearing debt, deferred income taxes and shareholders' equity.

Return on Net Assets

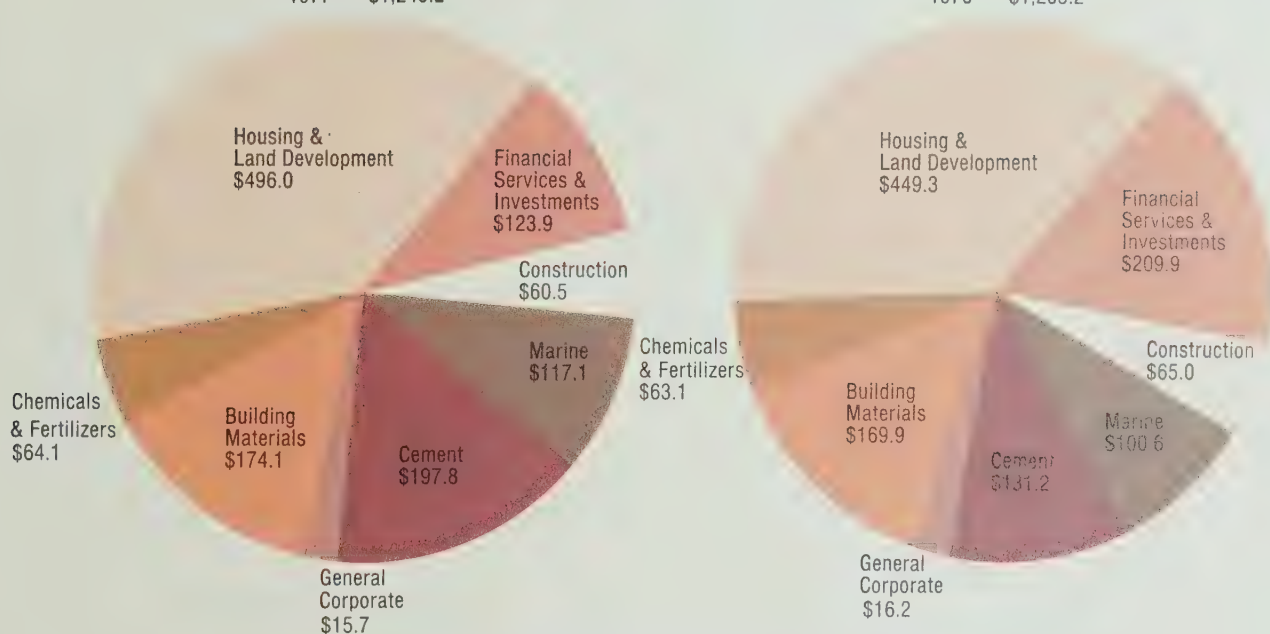
Return on net assets is the performance measurement obtained by dividing net income before interest expense less applicable income taxes by net assets.

Identifiable assets by industrial category

(millions of dollars)

1977 — \$1,249.2

1976 — \$1,205.2

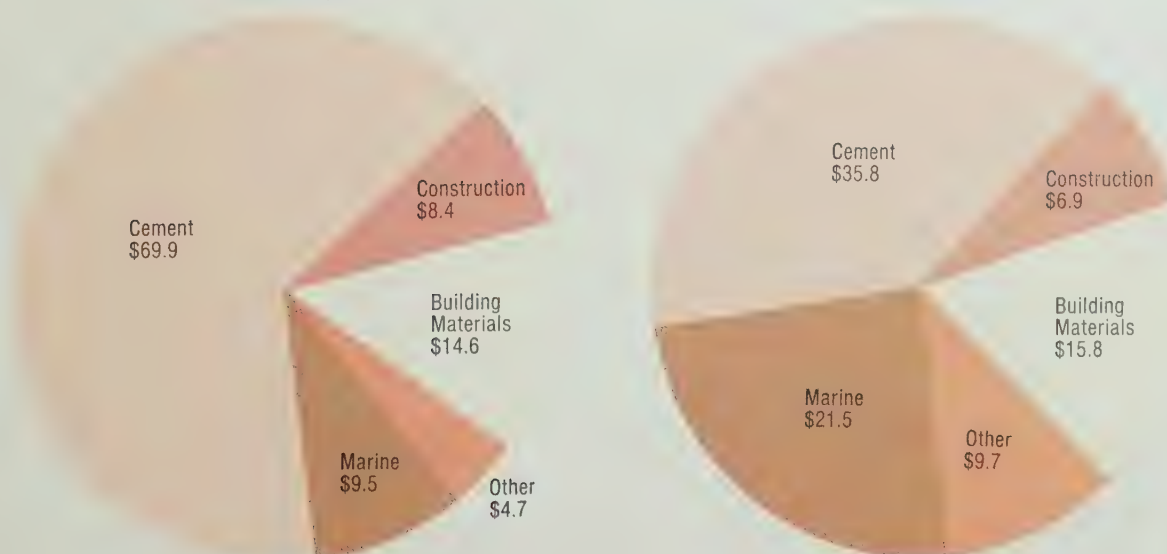


Capital expenditures by industrial category

(millions of dollars)

1977 — Total \$107.1

1976 — Total \$89.7





SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the years ended December 31, 1977 and 1976

Consolidation

The accounts of all subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting.

Foreign Exchange

Accounts in foreign currencies are translated into Canadian dollars. Monetary assets and liabilities, including long-term debt, are translated at the current rate, non-monetary assets and liabilities, including inventories, at historical rates, and the resulting exchange gains or losses are included in income.

Interest Costs

All interest costs related to housing and land development inventories and the construction of fixed assets are charged to income as incurred. Interest costs related to specific debt used to finance long-term development land are capitalized.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally on the first-in first-out basis and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which can reasonably be expected to be sold within the five-year operating cycle of the land development business.

Development Land and Properties

Development land is stated at cost, including interest on specific debt and property taxes, and comprises land which is not expected to be sold within the five years subsequent to the balance sheet date.

Properties are stated at depreciated cost. Depreciation is recorded on the straight-line method based on estimated lives to a maximum of 40 years.

Fixed Assets

Properties, plants and equipment are carried at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the

accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Investments and Other Assets

Portfolio securities are valued at the lower of aggregate cost or net realizable value.

Investments in incorporated and unincorporated joint ventures are accounted for on the equity method with the corporation's share of income included in revenues.

Intangible assets arising from acquisitions include the excess of purchase price over the net book value of identifiable assets at the date of acquisition for business combinations prior to November 1, 1970 and the excess of purchase price over the fair value of identifiable net assets at the date of acquisition for business combinations subsequent to that date.

Amortization of amounts relating to acquisitions subsequent to November 1, 1970 is charged to income on the straight-line basis over forty years. Unamortized amounts are charged to income in the event of diminution in value.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Revenues from the operations of revenue properties are recognized in accordance with the related leases, and revenues from the sale of revenue properties are recorded net of the related cost.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1977 and 1976
(thousands of Canadian dollars)

	NOTE REFERENCE	1977	1976
Revenues		1,039,327	888,349
Costs and Expenses			
Cost of sales and services		735,190	631,087
Selling, general and administrative		98,986	81,922
Depreciation, depletion and amortization		34,701	32,328
Interest on long-term debt		30,711	27,549
Other interest		18,709	12,662
		918,297	785,548
Income Before Income Taxes		121,030	102,801
Provision for income taxes	11		
Current		45,700	36,900
Deferred		10,900	10,200
		56,600	47,100
Net Income for the Year		\$ 64,430	\$ 55,701
Net Income per Common Share	12		
Canadian Method			
Basic		\$5.06	\$4.63
Fully diluted		4.65	4.18
United States Method			
Primary		5.01	4.58
Fully diluted		4.73	4.23



CONSOLIDATED BALANCE SHEETS

As at December 31, 1977 and 1976
(thousands of Canadian dollars)

	NOTE REFERENCE	1977	1976 (restated)
Assets	13		
Current Assets			
Cash and term deposits		14,215	13,011
Accounts receivable		232,971	182,912
Inventories	2	330,144	311,653
Revenue properties		—	100,507
Prepaid expenses		5,345	5,944
		582,675	614,027
Development Land and Properties	3	165,018	182,100
Fixed Assets	4		
Properties, plants and equipment		671,762	563,819
Accumulated depreciation and depletion		254,416	231,902
		417,346	331,917
Investments and Other Assets	5	84,181	77,106
		\$1,249,220	\$1,205,150

On behalf of the Board

Director *Angus A. MacNaughton*

Director *[Signature]*

	NOTE REFERENCE	1977	1976
	13		(restated)
Liabilities			
Current Liabilities			
Short-term borrowings	7	153,087	138,149
Accounts payable		153,807	135,563
Income taxes	11	31,191	35,332
Advances relating to housing and land inventories	8	91,184	85,910
Mortgages relating to revenue properties		—	77,897
Current portion of debt	9	44,898	26,505
		474,167	499,356
Mortgages and Debentures Relating to Development Land and Properties	9	74,174	84,386
Long-Term Debt	9	244,043	228,750
Deferred Income Taxes	11	88,607	77,051
		880,991	889,543
Shareholders' Equity			
Capital Stock and Contributed Surplus	10	182,273	175,305
Retained Earnings		185,956	140,302
		368,229	315,607
		\$1,249,220	\$1,205,150



CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1977 and 1976
(thousands of Canadian dollars)

	NOTE REFERENCE	1977	1976
	13		(restated)
Source of Funds			
Net income for the year		64,430	55,701
Items not affecting funds			
Depreciation, depletion and amortization		34,701	32,328
Deferred income taxes	11	10,900	10,200
Other		(1,436)	(4,398)
Funds from operations		108,595	93,831
Sale or reduction of			
Investments and other assets		17,066	5,470
Fixed assets		4,605	11,834
Development land and properties		42,889	5,853
Issue of			
Mortgages, debentures and long-term debt		40,629	89,498
Capital stock	10	6,968	12,245
Other		—	411
		220,752	219,142
Application of Funds			
Acquisition of subsidiary	1	4,538	21,317
Purchase of			
Investments and other assets		21,357	15,554
Fixed assets		107,109	89,741
Development land and properties		27,766	22,753
Payment or reduction of			
Mortgages, debentures and long-term debt		47,369	42,134
Dividends		18,776	16,029
		226,915	207,528
Working Capital			
Increase (Decrease) for the year		(6,163)	11,614
At beginning of year		114,671	103,057
At end of year		\$ 108,508	\$ 114,671

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Continued)

	NOTE REFERENCE	1977	1976
	13		(restated)
Changes in Elements of Working Capital			
Current Assets Increase (Decrease)			
Cash and term deposits		1,204	4,896
Accounts receivable		50,059	44,589
Inventories		18,491	124,984
Revenue properties		(100,507)	100,507
Prepaid expenses		(599)	922
		(31,352)	275,898
Current Liabilities Increase (Decrease)			
Short-term borrowings		14,938	93,833
Accounts payable		18,244	24,876
Income taxes		(4,141)	13,258
Advances relating to housing and land inventories		5,274	41,105
Mortgages relating to revenue properties		(77,897)	77,897
Current portion of debt		18,393	13,315
		(25,189)	264,284
Increase (Decrease) in Working Capital for the Year		\$ (6,163)	\$ 11,614

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 1977 and 1976
(thousands of Canadian dollars)

	1977	1976
Balance — Beginning of year	140,302	100,539
Net income for the year	64,430	55,701
Reduction of United States income taxes	—	91
	204,732	156,331
Dividends — preferred shares	950	1,345
— common shares	17,826	14,684
	18,776	16,029
Balance — End of year	\$ 185,956	\$ 140,302



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1977 and 1976

1. Business Combination

During the year the corporation acquired all of the outstanding shares of Gulf of Georgia Towing Co. Ltd. in exchange for cash and common shares.

The subsidiary has been consolidated on the basis of purchase accounting with the major items acquired being marine equipment and fixed assets of \$13,800,000 and long-term debt of \$8,700,000.

2. Inventories	1977	1976
	(thousands of dollars)	
Finished goods	25,286	26,426
Work in process	101,322	85,231
Raw materials and supplies	32,525	33,625
Land	157,654	153,683
Maintenance and repair parts	13,357	12,688
	<u>\$330,144</u>	<u>\$311,653</u>

Land inventories include raw land of \$71,619,000 at December 31, 1977 and

\$94,156,000 at December 31, 1976.

3. Development Land and Properties	1977	1976
	(thousands of dollars)	
Properties — cost	39,465	59,705
— accumulated depreciation	3,076	2,650
	<u>36,389</u>	<u>57,055</u>
Development land	94,484	99,080
Mortgages and loans receivable	34,145	25,965
	<u>\$165,018</u>	<u>\$182,100</u>

4. Fixed Assets	1977		1976	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	16,918	—	17,122	—
Quarries and gravel deposits	26,190	3,703	26,474	3,916
Buildings	109,207	35,431	87,836	32,440
Machinery and equipment	519,447	215,282	432,387	195,546
	<u>\$671,762</u>	<u>\$254,416</u>	<u>\$563,819</u>	<u>\$231,902</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. Investments and Other Assets

	1977	1976
	(thousands of dollars)	
Investments		
Portfolio securities	21,521	17,988
Joint ventures	18,425	16,701
Advances to stock purchase plan	7,581	5,285
	47,527	39,974
Intangible assets arising from acquisitions	34,474	34,576
Debt discount	2,180	2,556
	<u>\$ 84,181</u>	<u>\$ 77,106</u>

Portfolio securities include marketable shares of \$11,260,000 at December 31, 1977 and \$9,400,000 at December 31, 1976 with market values of \$14,970,000 and \$12,260,000 respectively.

Intangible assets arising from acquisitions subsequent to November 1, 1970 amount to \$2,672,000. Accumulated amortization thereon amounted to \$446,000 at December 31, 1977 and \$382,000 at December 31, 1976.

6. Investment in Joint Ventures

The corporation is a partner in a number of incorporated and unincorporated joint ventures which are engaged in construction, marine, financial service and investment activities.

The following is a summary of the corporation's proportionate share of the net assets and operations of these ventures.

	1977	1976
	(thousands of dollars)	
Net Assets Employed		
Current assets	79,142	37,241
Current liabilities	63,578	28,753
Working capital	15,564	8,488
Fixed assets and revenue properties	59,962	43,229
	<u>\$ 75,526</u>	<u>\$ 51,717</u>
Financed by		
Long-term debt	44,215	27,636
Equity and advances by the corporation	31,311	24,081
	<u>\$ 75,526</u>	<u>\$ 51,717</u>
Operations		
Revenues	79,512	40,501
Expenses	69,962	31,598
Share of joint venture income before income taxes	<u>\$ 9,550</u>	<u>\$ 8,903</u>

As a general partner in certain unincorporated joint ventures the corporation is contingently liable for partnership liabilities not included above in the amount of \$29,600,000 and as a limited partner is guarantor of loans to joint ventures in the amount of \$29,200,000.

In general, liabilities of the joint ventures are secured by pledges of the related assets and at December 31, 1977 joint venture assets exceeded liabilities in all ventures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. Short-Term Borrowings

	1977	1976
	(thousands of dollars)	
Bank advances	82,752	100,463
Short-term promissory notes	70,335	37,686
	\$153,087	\$138,149

Bank lines of credit at December 31, 1977 amounted to \$317,200,000, including \$75,000,000 maintained for the issue of short-term promissory notes, authorized in the same amount. Commitment fees on the bank lines are not material. Average short-term borrowings outstanding amounted to

\$176,700,000 during 1977 and \$92,400,000 during 1976 and the maximum outstanding at any month-end in 1977 was \$207,700,000. Short-term borrowings bear interest at rates which approximate prime lending rates.

8. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is \$41,467,000 at December 31, 1977 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years. The remaining advances of

\$49,717,000 at December 31, 1977 represent financing on residential houses included in work in process and finished goods inventories, which will be assumed by the purchasers of the houses upon their completion and sale.

9. Mortgages, Debentures and Long-Term Debt

	1977		1976	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Mortgages and debentures relating to development land and properties —				
Mortgages				
7½ % to 9½ % due to 2008 on revenue properties	280	26,147	452	31,795
6% to 13% due to 1989 on development land	14,253	46,377	11,934	48,486
Debentures				
9% due to 1991	300	9,392	300	9,700
7¾ % convertible subordinated due in 1989	—	7,091	—	7,091
	14,833	89,007	12,686	97,072
Current portion	—	14,833	—	12,686
	\$ 14,833	\$ 74,174	\$ 12,686	\$ 84,386

Certain development land and properties are pledged as security for the 9 per cent debentures and 7¾ per cent convertible

subordinated debentures under specific and floating charges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

	1977		1976	
	Current Portion	Total	Current Portion	Total
	(thousands of dollars)			
Long-Term Debt				
5⅞ % to 8% first mortgage sinking fund bonds due to 1992	2,244	31,674	2,119	35,807
Debentures				
10% payable in U.S. dollars due 1981	1,100	27,500	1,000	25,500
10¼ % due in 1980	—	20,000	—	20,000
11¾ % due to 1995	1,452	26,952	1,452	28,452
11¼ % due to 1996	2,500	50,000	2,500	50,000
7% to 9% due to 1981	453	1,288	453	1,742
Term bank loans at prime rates plus ¾ % to 1¾ % due to 1982 of which \$18,340,000 is payable in U.S. dollars	14,012	97,206	1,383	60,275
6% to 12% mortgages due to 1992	355	2,654	285	2,854
5% to 14% notes due to 1993	7,553	14,861	4,283	16,318
Non-interest bearing notes due to 1981	396	1,973	344	1,621
	30,065	274,108	13,819	242,569
Current portion	—	30,065	—	13,819
	\$ 30,065	\$244,043	\$ 13,819	\$228,750
Total current portion	\$ 44,898		\$ 26,505	

First mortgage sinking fund bonds and non-interest bearing notes in the total principal amount of \$19,030,000 at December 31, 1977 and \$20,790,000 at December 31, 1976 assumed on the acquisition of subsidiaries, are shown after deducting \$838,000 and \$1,031,000 respectively, of interest imputed at rates of 8¼ per cent and 8½ per cent.

A substantial portion of the properties, plants and equipment is pledged as security for the first mortgage bonds, debentures, term bank loans and other secured debt. Trust indentures pertaining to the first mortgage bonds and debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends.

Included in term bank loans is \$30,000,000 due in 1979 and \$42,000,000 repayable in

equal instalments from 1978 to 1981. Under the terms of the loans, the corporation may repay all or any part without penalty and redraw up to the maximum amount. At December 31, 1977, \$55,000,000 of the available loans had been repaid and, accordingly, short-term borrowings of an equal amount have been classified as term bank loans.

The following payments are required in the next five years to meet long-term debt instalment, sinking fund and purchase fund provisions:

	Mortgages and Debentures	Long-term Debt
	(thousands of dollars)	
1978	\$14,833	\$30,065
1979	13,724	53,813
1980	5,431	45,188
1981	5,361	47,732
1982	3,138	23,309

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. Capital Stock and Contributed Surplus

Authorized

5,000,000 preferred shares — without nominal or par value issuable in series of which 457,978 are designated as Series A \$1.10 cumulative convertible, 1,205,970 are designated as Series B \$1.20 non-cumulative convertible, 43,127 are designated as Series C non-dividend bearing convertible and 1,726,476 are designated as Series D \$1.50 cumulative convertible, all of which carry voting rights and are redeemable from \$20 to \$24 each subject to various conditions.

20,000,000 second preferred shares — without nominal or par value issuable in series.

Common shares — an unlimited number without nominal or par value.

Issued and Fully Paid

	1977		1976	
	Shares	Amount	Shares	Amount
	(thousands)			
Preferred shares — Series A	8	157	123	2,455
— Series B	271	5,416	848	16,969
— Series C	43	863	43	863
— Series D	334	6,686	324	6,485
Common shares	12,877	161,228	11,885	140,755
Contributed surplus		7,923		7,778
		\$182,273		\$175,305

Common shares are shown after deducting 806,151 shares at their issue price of \$15 per share, which were received as a result of previous shareholdings in companies acquired.

The details of shares issued and fully paid are as follows:

	1977	1976
	(thousands)	
Preferred		
Balance beginning of year	1,338	1,083
Issued at \$22.50 in exchange for shares of a subsidiary	58	324
	1,396	1,407
Converted at \$20.00 to common shares	(740)	(69)
Balance end of year	656	1,338
Common		
Balance beginning of year	11,885	11,522
Issued in the year —		
At \$25.00 in exchange for shares of a subsidiary	60	—
At \$13.913 on the conversion of long-term debt	—	200
At \$20.00 on the conversion of preferred shares	740	69
At \$7.90 to \$26.50 under the purchase plan and on the exercise of options and warrants	192	94
Balance end of year	12,877	11,885

Contributed Surplus

Contributed surplus increased by \$145,000 during the year pursuant to the issue of

Series D preferred shares at a premium of \$2.50 per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The following shares are reserved for issuance:

Preferred

375,000 Series D pursuant to an agreement to exchange the minority shares of a subsidiary.

Common

	1977	1976
	(thousands)	
At \$20.00 for the conversion of preferred shares	1,031	2,072
At \$7.90 to \$23.97 for the exercise of options and warrants	256	330
	1,287	2,402

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90 per cent of market on the granting date. The details of outstanding options are as follows:

	1977			1976		
	Options held by			Options held by		
	Directors & Officers	Others	Option Price	Directors & Officers	Others	Option Price
	(thousands)			(thousands)		
Beginning of year	18	14	\$ 7.90 to \$16.54	18	14	\$ 7.90 to \$16.54
Granted	6	1	\$23.97	—	—	—
Exercised	—	(8)	\$ 7.90 to \$16.54	—	—	—
End of year	24	7	\$ 9.78 to \$23.97	18	14	\$ 7.90 to \$16.54

Stock Purchase Plan

Under the terms of the stock purchase plan trustees have purchased, at a price equal to approximately 99 per cent of market and hold 300,600 common shares for the benefit of employees who are directors or officers and 91,750 common shares for the benefit of

other employees. The participants pay for the common shares over a period of seven years together with interest calculated at 5 per cent per annum. The shares are held as security by the trustees until full payment has been received.

11. Income Taxes

The components of the provision for income taxes were as follows:

	1977	1976
	(thousands of dollars)	
Current		
Federal	26,600	23,300
Provincial	10,400	9,100
Foreign	8,700	4,500
	\$ 45,700	\$ 36,900
Deferred		
Federal	7,400	7,000
Provincial	2,900	2,800
Foreign	600	400
	\$ 10,900	\$ 10,200



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The sources of long-term differences between income for financial statement purposes and tax purposes were as follows:

	1977	1976
	(thousands of dollars)	
Excess depreciation for tax purposes	9,300	10,500
Prior years' losses applied to reduce taxable income	600	—
Other, net	1,000	(300)
	\$ 10,900	\$ 10,200

A reconciliation of the corporation's effective income tax rates to the normal federal income tax rate is as follows:

	1977	1976
Canadian federal income tax rate	46.0%	46.0%
Federal tax incentives for manufacturing and processing	(1.5)	(2.5)
Provincial income taxes, less federal abatement	2.6	2.7
Other, net	(.3)	(.4)
Effective income tax rates	46.8%	45.8%

No significant decrease in deferred income taxes payable is anticipated within the next three years. Provisions have not been made for Canadian income taxes on undistributed active business earnings of foreign subsid-

aries inasmuch as such earnings are being reinvested in foreign operations. Provision has been made for taxes on "Foreign Accrual Property Income" as defined by the Income Tax Act (Canada).

12. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share is as follows:

	Canadian		United States	
	1977	1976	1977	1976
	(thousands)			
Basic and Primary				
Weighted average common shares	12,556	11,749	12,556	11,749
Shares pertaining to stock options	—	—	111	125
	12,556	11,749	12,667	11,874
Fully Diluted				
Weighted average common shares	12,556	11,749	12,556	11,749
Shares pertaining to				
— conversion of debt	214	107	214	107
— conversion of preferred shares	771	1,181	771	1,181
— options and warrants	465	417	150	138
	14,006	13,454	13,691	13,175

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Basic and primary income per common share have been calculated after reducing net income by \$950,000 in 1977 and \$1,345,000 in 1976 being the dividends on Series A, B and D preferred shares.

Net income used in determining fully diluted income per common share has been increased by \$284,000 in 1977 and \$136,000 in 1976

being the after tax effect of interest on debt assumed to be converted. Net income was further increased for purposes of calculating Canadian fully-diluted income per common share by \$436,000 in 1977 and \$398,000 in 1976 to give effect to an imputed return of five per cent on funds which would have been available on the exercise of options and warrants.

13. Additional Information

Restatement of Comparative Figures

To conform with corporate accounting policies, certain revenue property joint ventures acquired during 1976 and previously accounted for on a consolidated basis have been restated to the equity method.

Comparative figures for the statement of income have not been restated as the amounts involved are not material but the comparative balance sheet and statement of changes in financial position have been restated to reflect the following:

	1976
	(thousands of dollars)
Reduction of:	
Current assets	1,328
Current liabilities	4,150
Working capital deficiency on acquisition of subsidiary ..	(2,822)
Revenue properties	31,145
Mortgages related to revenue properties	(22,731)
Deferred income taxes	(812)
Increase in investment in joint ventures	\$ 4,780

Prices and Incomes Controls

The Canadian operations of the corporation are subject to the Anti-Inflation Act (Canada) and its regulations under which selling prices, margins, dividends and compensation are restrained. The corporation has complied in all material respects with the controls.

Retirement Plans

Retirement plans exist under which employees are eligible to participate after varying years of employment and are eligible for benefits at age 65. Contributions to plans for salaried and hourly employees charged to income were \$3,500,000 in 1977 and \$3,050,000 in 1976, including prior service costs. An unfunded liability of approximately \$5,200,000 at December 31, 1977 is being funded and charged to income over periods up to fifteen years.

Capitalized Interest Costs

Interest costs on specific debt associated with the holding and development of long-term land are capitalized in order to achieve a better matching of costs and revenues. Had these interest costs been expensed as incurred, net income for 1977 and 1976 would have been reduced by approximately \$500,000 and \$1,400,000 respectively.

Commitments and Contingent Liabilities

Outstanding commitments relating to the construction of plants and the purchase of equipment amount to approximately \$26,000,000 at December 31, 1977.

Indebtedness and contract obligations of other companies have been guaranteed up to \$950,000 at December 31, 1977. The corporation is also contingently liable for discounted notes in the amount of \$6,400,000.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

14. Replacement Cost Information

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of inventories and productive capacity that are significantly greater than the historical costs of such assets reported in the corporation's financial statements. Concurrently, technological improvements and design changes have generally increased the productivity of asset additions.

The corporation's annual report on Form 10-K as required by the Securities and Exchange Commission, which is available upon request, contains information with respect to the December 31, 1977 replacement cost of inventories, development land and properties and fixed assets, together with the approximate effect which replacement cost would have on cost of sales and services and depreciation expense for the year.

15. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows:

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
(thousands of dollars)					
1977 —					
Revenues	\$ 193,513	\$ 283,199	\$ 253,366	\$ 309,249	\$1,039,327
Gross profit	59,876	79,023	82,537	82,701	304,137
Net income	8,906	18,182	20,309	17,033	64,430
Net income per common share					
— Basic	\$ 0.70	\$ 1.44	\$ 1.61	\$ 1.31	\$ 5.06
— Primary	0.69	1.42	1.59	1.31	5.01
Market Price					
— High	\$ 24.50	\$ 25.75	\$ 27.63	\$ 27.63	\$ 27.63
— Low	22.50	22.38	25.00	25.25	22.38
Trading Volume	377,371	496,373	531,377	450,942	1,856,063

	Three Months Ended				Year Ended December 31
	March 31	June 30	September 30	December 31	
	(thousands of dollars)				
1976 —					
Revenues	\$ 171,925	\$ 234,551	\$ 237,189	\$ 244,684	\$ 888,349
Gross profit	41,545	62,712	73,503	79,502	257,262
Net income	7,456	15,270	17,900	15,075	55,701
Net income per common share					
— Basic	\$ 0.61	\$ 1.28	\$ 1.50	\$ 1.24	\$ 4.63
— Primary	0.61	1.27	1.46	1.24	4.58
Market Price					
— High	\$ 24.00	\$ 23.25	\$ 23.00	\$ 23.75	\$ 24.00
— Low	19.00	20.25	20.50	19.75	19.00
Trading Volume	1,047,742	673,497	542,960	473,309	2,737,508

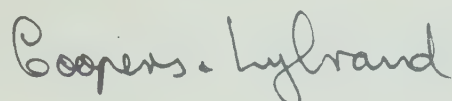
AUDITORS' REPORT TO THE SHAREHOLDERS

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

Montreal, Canada
February 16, 1978

We have examined the consolidated financial statements including the results by industrial category of GENSTAR LIMITED and subsidiaries as at December 31, 1977 and 1976 as set forth on pages 30 through 48 of this report. We have also examined the results by industrial category for the years from 1973 to 1975 included on pages 30 and 31. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of GENSTAR LIMITED and subsidiaries as at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the results by industrial category referred to above are presented fairly in conformity with generally accepted accounting principles applied on a consistent basis.



Chartered Accountants

GENSTAR

DIVISIONS AND SUBSIDIARIES



Building Materials and Construction



Genstar Materials Limited
Calgary, Alberta
Vancouver, British Columbia

Ready-mix concrete, concrete block and pipe, sand, gravel, classified aggregates and lightweight aggregate.

N. D. MacRitchie
President

G. K. Cruikshank
Vice President, Finance and Administration

J. J. Denholm
Vice President



Ocean Construction Supplies Limited
Vancouver, British Columbia

N. D. MacRitchie
President

L. J. Campbell
Vice President, Finance

J. T. Arnold
J. A. Cherry
Vice Presidents



Consolidated Concrete Limited
Edmonton, Alberta

K. G. Evans
President

B. Amos
Vice President and General Manager
Northern Alberta

R. C. Kruger
Vice President and General Manager
Southern Alberta

H. Banks
Vice President and
General Manager
Edcon Block Division



Redi-Mix Limited
Regina, Saskatchewan

H. F. Ward
President

W. F. Maguire
B. R. Murphy
Vice Presidents



Genstar Construction Limited
Construction Services Division
Winnipeg, Manitoba

K. C. Kinsley
President

L. J. Herbach
Vice President, Finance

B-A Construction Ltd.
Mulder Bros. (1975) Ltd.

D. G. Mulder
President, Manitoba Operations

R. F. Morris
E. G. Mulder
Vice Presidents



Standard General Construction Limited — Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

R. J. Boon
President

A. J. Berg
A. J. Flood
W. E. Gardiner
W. J. Smith
Z. J. Iwaskow
Vice Presidents



Building Products and Concrete Supply
Winnipeg, Manitoba

E. Rosenblat
President

R. D. Rosenblat
Vice President and General Manager



Genstar Construction Limited
Engineering and Industrial Division
Winnipeg, Manitoba

D. S. Duncan
President

A. J. Smith
G. C. Turner
Vice Presidents

B.A.C.M. Construction Company Ltd.
Winnipeg, Manitoba

H. B. McLenaghan
President

Genstar Construction, Inc.
Seattle, Washington

E. G. Hamlin
Vice President



Con-Force Products Ltd.
Calgary, Alberta

Precast, prestressed concrete.

A. W. Falk
President

G. Adam
Vice President, Marketing

T. J. Bartkiewicz
Vice President, Operations

F. T. McAleer
Vice President, Finance

H. Nash
Vice President, Construction

J. G. White
Vice President and
General Manager
Con-Force Costain
Concrete Tie Co. Ltd.

Housing and Land Development



Genstar Homes Limited
Edmonton, Alberta

W. S. Bannister
President

D. C. Lindberg
Vice President



Engineered Homes Limited
Calgary, Alberta

C. D. Wilson
President

G. L. Magnussen
Senior Vice President, Marketing

R. B. Klippenstein
Vice President, Finance

J. E. Whitaker
Vice President and General
Manager, Southern Region

P. A. Turner
Vice President and General
Manager, Pacific Region

R. J. Cowan
Vice President and General
Manager, Northern Region

G. J. McNeil
Vice President and General
Manager, Central Region

G. R. McAthey
Vice President and General Manager
Construction Products & Systems



Genstar Homes of Texas, Inc.
Houston, Texas

E. A. Mohler
President

J. Thompson
Vice President, Finance

W. Coons
Vice President, Operations



Broadmoor Homes, Inc.
Irvine, California

R. B. Smith
President

R. F. Osgood
Executive Vice President

L. R. Lizotte
Senior Vice President

J. B. Sauer
Vice President, Finance
and Secretary

R. Menard
Vice President and Northern
California Regional Manager

S. R. Gustafson
Vice President and Southern
California Regional Manager



Keith Construction Company Limited
Calgary, Alberta

L. H. Frodsham
President

R. J. Kimoff
Executive Vice President

L. Luini
Vice President

L. Cosman
Vice President

R. Taylor
Vice President

N. Till
Vice President, Finance

B. C. Eeles
Controller



**Genstar Commercial
Development Company**
Toronto, Ontario

J. E. Searle
President

N. E. Kanji
Comptroller



Genstar Development Company
Surrey, British Columbia

V. S. G. Lewis
President

N. F. Bothwell
Executive Vice President

M. H. Rogers
Senior Vice President
Edmonton Region

J. E. Devereaux
Vice President, Finance and
Administration

E. B. Bodie
Vice President
Winnipeg Region

J. K. McLaughlin
Vice President and General Manager
Lower Mainland Region

S. E. J. Richardson
Vice President and General Manager
Calgary Region



**Genstar Eastern
Development Company**
Toronto, Ontario

F. D. Dembinsky
President

M. B. McAfee
Vice President

J. W. Ramsay
Vice President

D. G. McMullen
Controller



**Genstar Southern
Development Corporation**
Miami, Florida

H. A. Greene
Vice President



Genstar Development, Inc.
Cranbury, New Jersey

J. C. Mazieka
Regional Manager

Manufacturing



Genstar Cement Limited Edmonton, Alberta

B. T. Johnson
President

P. Wacko
Vice President

K. M. Bartlett
Vice President

D. M. Aboussafy
Vice President



Inland Cement Industries Limited Edmonton, Alberta

Normal portland cement, oilwell cement, high early strength cement, masonry cement, sulphate resistant cement and special potash cement.

D. R. B. McArthur
Chairman of the Board

G. Ross
President

J. L. Crawley
Vice President and General Manager, Eastern Region

A. R. Watt
Vice President and General Manager, B.C. Region

R. J. Zimmer
Vice President and General Manager, Western Region

D. M. Aboussafy
Vice President and Secretary-Treasurer

E. T. H. Cardey
Vice President, Technical Services

A. E. Geikie
Vice President, Personnel

P. Wacko
Vice President, Marketing



Miron Company Ltd. Montreal, Quebec

Normal portland cement, high early strength cement, oilwell cement, white portland cement, masonry cement, ready-mix concrete, "Add-O-Mix", concrete blocks, bricks and pipe, crushed stone, classified aggregates and sand, bituminous concrete (asphalt) and precast products.

Albert V. Hudon
President

Charly Binamé
Senior Vice President and General Manager, Cement and Aggregates Division

Jacques B. Langevin
Senior Vice President and Director of Public Relations

François R. Lacroix
Vice President and General Manager, Cement Products Division

Jacques Lemoine
Vice President, Administration and Personnel

Claude J. E. Dupont
Vice President, General Counsel and Secretary

Denis Derome
General Manager, Construction Division

André Laplante
General Manager, Technical Services



Genstar Chemical Limited Montreal, Quebec

Industrial chemicals and gases, fertilizers and fertilizer materials, including ammonia, ammonium nitrate, urea, nitrogen solutions, nitric acid, hydrogen, carbon dioxide, nitrogen.

R. A. Parkes
President

J. C. Chantraine
Senior Vice President

J. Bellisle
Vice President and General Manager, Fertilizers

M. F. Moriarty
Vice President, Sales

R. W. Grigg
Director of Finance

T. Bjerkelund
Director of Corporate Services

A. B. Read
Director of Marketing Services

Energy Sciences & Consultants, Inc. Biwabik, Minnesota

C. H. Grant
President

N. F. Kaufman
Vice President



Truroc Gypsum Products Ltd. Edmonton, Alberta

Gypsum wallboard.

G. R. Thompson
President

J. B. Hawking
Vice President, Marketing

B. A. Korun
Vice President, Manufacturing

L. J. Umrysh
Secretary-Treasurer

Marine and International



Genstar Marine Limited
Vancouver, British Columbia

N. A. Liberatore
Chairman of the Board

J. S. Byrn
President

J. S. Heyrman
Vice President, Marketing
and Research



Seaspan International Ltd.
North Vancouver, British Columbia

J. R. A. Lindsay
Chairman of the Board

A. M. Fowlis
President

R. E. Tolhurst
Senior Vice President

D. W. Osborne
Vice President, Operations

W. D. Traill
Vice President, Finance



Vancouver Shipyards Co. Ltd.
North Vancouver, British Columbia

W. R. Monkman
President

V. Gadsby
Vice President, Marketing



McAllister Towing & Salvage Ltd.
Montreal, Quebec

D. G. McAllister
President

T. H. Caron
Secretary-Treasurer



Genstar Marine Inc.
San Francisco, California

G. M. Marshall
Executive Vice President

R. N. Duncan
Vice President

S. O. Stokke
Vice President



Genstar Overseas Limited
Hamilton, Bermuda

J. L. Bodie
Vice Chairman

J. L. Eyre
President

C. G. Hall
Vice President and Treasurer



Genstar Projects (Middle East) Limited
Hamilton, Bermuda
Toronto, Ontario

J. E. Searle
Senior Vice President

B. N. Baranyai
Vice President



Genstar Limited
International Division
Winnipeg, Manitoba

D. R. Penner
Manager, International
Business Development

Financial Services and Investments



Genstar Pacific Corporation
San Francisco, California

H. D. Edelen
President

J. R. McMichael
Executive Vice President

S. W. Brown
Vice President, Finance

J. S. Madden
Treasurer

J. M. Scanlon
Controller

Genstar Pacific Investments
San Francisco, California

D. R. Blanchard
President



Broadmoor Ventures
Irvine, California

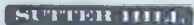
J. P. Hazeltine
President



First American Title Guaranty Company — Oakland, California

Title insurance and escrow services.

W. B. Morrish
President



Sutter Hill Limited
Palo Alto, California

Development of shopping centers and industrial properties in the Western United States.

J. R. McMichael
President

M. D. Couch
Executive Vice President

J. B. Harrington
Vice President

W. N. Neidig
Vice President

W. R. Sheldon
Secretary

M. S. Brutschy
Controller

Sutter Hill Ventures
Palo Alto, California

Venture capital investment activities primarily in technology-related companies.

W. H. Draper III
P. M. Wythes
D. L. Anderson
G. L. Baker Jr.
General Partners



Genstar Property Company
Toronto, Ontario

T. R. Ritson
President

J. C. Griffiths
Vice President, Finance

T. R. Willox
Vice President



Abbey Glen Property Corporation
Toronto, Ontario

J. B. Hamilton, Q.C.
Chairman of the Board

C. D. Smith
Deputy Chief Officer and Executive Vice President



Indussa Corporation
New York, New York

General mill representatives and importers specializing in non-ferrous metals from world suppliers to the United States and the export of domestic United States products.

V. V. Shick
President

J. Leroy
Vice President

H. H. Bachrach
Corporate Secretary



Genstar Western Limited
Vancouver, British Columbia

I. Spector
Vice President

CORPORATE INFORMATION

Counsel

Ogilvy, Montgomery, Renault, Clarke,
Kirkpatrick, Hannon & Howard
Montreal, Canada

Shearman & Sterling
New York, U.S.A.

Auditors

Coopers & Lybrand
Montreal, Canada

Transfer Agents

Montreal Trust Company
Saint John, Montreal, Toronto,
Winnipeg, Edmonton and
Vancouver, Canada

Morgan Guaranty Trust Company
of New York
New York, U.S.A.

Registrars

The Royal Trust Company
Saint John, Montreal, Toronto,
Winnipeg, Edmonton and
Vancouver, Canada

Citibank, N.A.
New York, U.S.A.

Stock Exchanges

Symbol GST

Montreal, Toronto, Alberta
and Vancouver Stock Exchanges
in Canada

New York Stock Exchange in the
United States

Brussels and Antwerp Bourses
in Belgium

Zurich, Geneva and Basel
Exchanges in Switzerland

Corporate Office

Genstar Limited
Suite 4105
One Place Ville Marie
Montreal, Canada
H3B 3R1
Tel: (514) 879-1270



Handwritten initials: JH

GENSTAR LIMITED

Notice of Annual and Special General Meeting of Shareholders;

**Notice of Meetings of Preferred Shareholders
as a Class and in Series; and**

Proxy Statement dated March 1, 1977.

Important: *There may be more than one form of proxy contained in this envelope. If you are unable to attend the meeting in person, **all** of the accompanying forms of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal Quebec H3B 3L6, Canada in the envelope provided for that purpose.*



NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the Annual and Special General Meeting of Shareholders of GENSTAR LIMITED ("Genstar") will be held at The Royal Bank of Canada Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 10:00 o'clock in the forenoon, Daylight Saving Time, for the purposes of:

- (a) receiving the Annual Report of the Directors for the year ended December 31, 1976, including the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Retained Earnings, Consolidated Statements of Changes in Financial Position of Genstar and its Subsidiaries and Auditors' Report thereon for the years ended December 31, 1975 and 1976;
- (b) voting or not voting for the election of the directors;
- (c) voting for or against appointing auditors and authorizing the directors to fix their remuneration;
- (d) voting for or against the sanctioning of By-law 41 creating a new class of 20,000,000 Second Preferred Shares of the par value of \$20 each, issuable in one or more series, and authorizing the directors to fix, from time to time before issuance, the attributes of the shares of each series (the full text of such By-law being reproduced as Exhibit "A" to the accompanying Proxy Statement);
- (e) voting for or against the passing of a Special Resolution authorizing the directors to apply for a Certificate of Continuance under the Canada Business Corporations Act which will enable Genstar to be continued under such Act but not before May 31, 1977, and approving the proposed Articles of Continuance (the full text of the Special Resolution being reproduced as Exhibit "B" to the accompanying Proxy Statement);
- (f) voting for or against the approval of a resolution of the Directors terminating, effective on the date of the issue of the Certificate of Continuance, the right of the holders of registered shares to obtain bearer share warrants in respect of shares of Genstar (the full text of which resolution being reproduced as Exhibit "C" to the accompanying Proxy Statement); and
- (g) approving, in satisfaction of a requirement of the New York Stock Exchange, the acquisition of Abbey Glen Property Corporation;
- (h) transacting such other business, if any, as may properly be brought before the meeting.

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative; and holders of bearer share warrants may attend and vote at the meeting in person upon presentation thereof of their bearer share warrants or voting certificates in respect thereof as hereinafter mentioned or by proxy pursuant to any such voting certificates.

The directors of Genstar have appointed the following depositaries for the purpose of receiving, not later than 48 hours prior to the meeting, deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the meeting in person or by proxy, namely:

MONTREAL TRUST COMPANY

Place Ville Marie, 777 Dorchester Boulevard West,
Montreal, Quebec, H3B 3L6, Canada, or
43 King Street, Saint John, New Brunswick, E2I 3X7, Canada, or
15 King Street West, Toronto, Ontario, M5H 1B4, Canada, or
Notre Dame at Albert Street, Winnipeg, Manitoba, R3L 2J1,
Canada, or
10185 - 102nd Street, Edmonton, Alberta, T5J 2J6, Canada, or
466 Howe Street, Vancouver, British Columbia, J6C 2A8, Canada,
or

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

SOCIÉTÉ GÉNÉRALE DE
BANQUE S.A.

BANQUE GÉNÉRALE DU
LUXEMBOURG

23 Wall Street, New York, N.Y., U.S.A., or

3, rue Montagne du Parc, Brussels, Belgium, or

27, avenue Monterey, Luxembourg.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy, Proxy Statement and the Annual Report of Genstar covering the year 1976. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada, or at any of the offices of the depositaries listed above.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

NOTICE OF MEETING OF PREFERRED SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT a meeting of the holders of the Preferred Shares as a class, namely the holders of the Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares, Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares, Series C Convertible Redeemable Preferred Shares and Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares, all of the par value of \$20 each, of Genstar Limited ("Genstar") will be held at The Royal Bank of Canada Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 10:30 o'clock in the forenoon, Daylight Saving Time, for the purpose of voting for or against approving certain amendments to the provisions relating to all such Preferred Shares as a class which are necessary in order to conform to the requirements of the Canada Business Corporations Act upon the continuance of Genstar thereunder (the full text of which provisions, as to be amended, being set forth in the Articles of Continuance set out in Exhibit "B" to the accompanying Proxy Statement).

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative; and holders of bearer share warrants may attend and vote at the meeting in person upon presentation thereof of their bearer share warrants or voting certificates in respect thereof as hereinafter mentioned or by proxy pursuant to any such voting certificates.

The directors of Genstar have appointed the following depositaries for the purpose of receiving, not later than 48 hours prior to the meeting, deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the meeting in person or by proxy, namely:

MONTREAL TRUST COMPANY

Place Ville Marie, 777 Dorchester Boulevard West,
Montreal, Quebec, H3B 3L6, Canada, or
43 King Street, Saint John, New Brunswick, E2I 3X7, Canada, or
15 King Street West, Toronto, Ontario, M5H 1B4, Canada, or
Notre Dame at Albert Street, Winnipeg, Manitoba, R3L 2J1,
Canada, or
10185 - 102nd Street, Edmonton, Alberta, T5J 2J6, Canada, or
466 Howe Street, Vancouver, British Columbia, J6C 2A8, Canada,
or

MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

23 Wall Street, New York, N.Y., U.S.A., or

SOCIÉTÉ GÉNÉRALE DE
BANQUE S.A.

3, rue Montagne du Parc, Brussels, Belgium, or

BANQUE GÉNÉRALE DU
LUXEMBOURG

27, avenue Monterey, Luxembourg.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy and Proxy Statement. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada, or at any of the offices of the depositaries listed above.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

NOTICE OF MEETING OF SERIES A \$1.10 CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED SHARES

NOTICE IS HEREBY GIVEN THAT a meeting of the holders of the Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares of the par value of \$20 each of Genstar Limited ("Genstar") will be held at The Royal Bank of Canada Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 10:40 o'clock in the forenoon, Daylight Saving Time, for the purpose of voting for or against approving certain amendments to the provisions relating to such Series A Preferred Shares which are necessary in order to conform to the requirements of the Canada Business Corporations Act upon the continuance of Genstar thereunder (the full text of which provisions, as to be amended, being set forth in the Articles of Continuance set out in Exhibit "B" to the accompanying Proxy Statement).

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy and Proxy Statement. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

NOTICE OF MEETING OF SERIES B \$1.20 NON-CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED SHARES

NOTICE IS HEREBY GIVEN THAT a meeting of the holders of the Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares of the par value of \$20 each of Genstar Limited ("Genstar") will be held at The

Royal Bank of Canada Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 10:50 o'clock in the forenoon, Daylight Saving Time, for the purpose of voting for or against approving (i) certain amendments to the provisions relating to such Series B Preferred Shares which are necessary in order to conform to the requirements of the Canada Business Corporations Act upon the continuance of Genstar thereunder (the full text of which provisions, as to be amended, being set forth in the Articles of Continuance set out in Exhibit "B" to the accompanying Proxy Statement), and (ii) a resolution of the Directors terminating, effective on the date of the issue of the Certificate of Continuance, the right of the holders of registered shares to obtain bearer share warrants in respect of shares of Genstar (the full text of which resolution being reproduced as Exhibit "C" to the accompanying Proxy Statement).

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative; and holders of bearer share warrants may attend and vote at the meeting in person upon presentation thereof of their bearer share warrants or voting certificates in respect thereof as hereinafter mentioned or by proxy pursuant to any such voting certificates.

The directors of Genstar have appointed the following depositaries for the purpose of receiving, not later than 48 hours prior to the meeting, deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the meeting in person or by proxy, namely:

MONTREAL TRUST COMPANY	Place Ville Marie, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada, or 43 King Street, Saint John, New Brunswick, E2I 3X7, Canada, or 15 King Street West, Toronto, Ontario, M5H 1B4, Canada, or Notre Dame at Albert Street, Winnipeg, Manitoba, R3L 2J1, Canada, or 10185 - 102nd Street, Edmonton, Alberta, T5J 2J6, Canada, or 466 Howe Street, Vancouver, British Columbia, J6C 2A8, Canada, or
MORGAN GUARANTY TRUST COMPANY OF NEW YORK	23 Wall Street, New York, N.Y., U.S.A., or
SOCIÉTÉ GÉNÉRALE DE BANQUE S.A.	3, rue Montagne du Parc, Brussels, Belgium, or
BANQUE GÉNÉRALE DU LUXEMBOURG	27, avenue Monterey, Luxembourg.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy and Proxy Statement. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada, or at any of the offices of the depositaries listed above.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

NOTICE OF MEETING OF SERIES C CONVERTIBLE REDEEMABLE PREFERRED SHARES

NOTICE IS HEREBY GIVEN THAT a meeting of the holders of the Series C Convertible Redeemable Preferred Shares of the par value of \$20 each of Genstar Limited ("Genstar") will be held at The Royal Bank of Canada

Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 11:00 o'clock in the forenoon, Daylight Saving Time, for the purpose of voting for or against approving (i) certain amendments to the provisions relating to such Series C Preferred Shares which are necessary in order to conform to the requirements of the Canada Business Corporations Act upon the continuance of Genstar thereunder (the full text of which provisions, as to be amended, being set forth in the Articles of Continuance set out in Exhibit "B" to the accompanying Proxy Statement), and (ii) a resolution of the Directors terminating, effective on the date of the issue of the Certificate of Continuance, the right of the holders of registered shares to obtain bearer share warrants in respect of shares of Genstar (the full text of which resolution being reproduced as Exhibit "C" to the accompanying Proxy Statement).

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy and Proxy Statement. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

NOTICE OF MEETING OF SERIES D \$1.50 CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED SHARES

NOTICE IS HEREBY GIVEN THAT a meeting of the holders of the Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares of the par value of \$20 each of Genstar Limited ("Genstar") will be held at The Royal Bank of Canada Auditorium, Suite M-2, The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, Canada, on Monday, April 25, 1977 at the hour of 11:10 o'clock in the forenoon, Daylight Saving Time, for the purpose of voting for or against approving certain amendments to the provisions relating to such Series D Preferred Shares which are necessary in order to conform to the requirements of the Canada Business Corporations Act upon the continuance of Genstar thereunder (the full text of which provisions, as to be amended, being set forth in the Articles of Continuance set out in Exhibit "B" to the accompanying Proxy Statement).

Pursuant to the provisions of the By-laws of Genstar, registered shareholders (i) who are individuals may attend and vote at the meeting in person or by proxy and (ii) which are corporations may attend and vote at the meeting by proxy or by a duly authorized representative.

When forwarded to registered shareholders of Genstar on or about March 30, 1977, this Notice of Meeting is accompanied by the form of proxy and Proxy Statement. Additional copies of this Notice of Meeting and of all the other material mentioned may be obtained at the head office and principal executive office of Genstar at The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Quebec, H3B 3R1, Canada.

DATED at Montreal, Quebec, Canada, this 30th day of March, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

NOTE: If you are unable to attend the meeting in person, the accompanying form of proxy should be completed, signed and returned to Genstar at your earliest convenience in care of Montreal Trust Company, 777 Dorchester Boulevard West, Montreal, Quebec, H3B 3L6, Canada in the envelope provided for that purpose.

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PROXY STATEMENT

PARTICULARS OF MATTERS TO BE VOTED UPON

Item “b”. Election of Directors. Reference is made to the section entitled “Nominees for Election as Directors and Ownership of Securities” found on page 10.

Item “c”. Appointment of Auditors. Reference is made to the section entitled “Appointment of Auditors” found on page 17.

Item “d”. Increase in Capital. By-law 41 (annexed hereto as Exhibit “A”) has been enacted by the directors providing for the creation of twenty million second preferred shares of the par value of \$20 each, issuable in series. Such new preferred shares will rank ahead of the common shares but will rank after and be junior to the existing preferred shares. The terms of the second preferreds including dividends, conversion and voting rights, redemption prices, issue dates and similar matters will be determined from time to time by the Board of Directors without further shareholder approval. As at March 1, 1977, Genstar had 5,000,000 authorized preferred shares of which 3,433,551 had been designated to form Series A, B, C, and D of which 968,452 have been issued. The remaining 1,566,449 shares are available for issue in future transactions. The unissued 2,465,099 shares included in Series A, B, C, and D are available for issue but only as part of their respective series and with the attributes pertaining thereto, which cannot be changed without shareholder approval. The Articles of Continuance, (particulars of which are set out in the explanation to Item “e” below) will not include the new preferred shares if they are not approved by the necessary shareholder vote. The new preferred shares will rank ahead of the common shares as to rights to dividend and on liquidation as more particularly set out in paragraphs 2.3, 2.4, and 2.5 of Exhibit “A” attached hereto. There are no present plans to issue the new second preferred shares. The new preferred shares are being created so that they will be available for financing and other purposes if and when market conditions warrant or opportunities for acquisitions by way of share issue arise. In recent years Genstar has relied heavily on the debt market to provide the funds to finance capital expenditures and growth in its operations. Genstar anticipates that its expanding requirements will include issuing additional amounts of equity capital and, therefore, the foregoing increase in capital is being sought. **In order for the increase to become effective, the By-law must be sanctioned by at least two-thirds of the votes cast at the Annual and Special General Meeting of Shareholders by the holders of the preferred shares and common shares voting together and by the holders of the common shares voting separately as a class and confirmed by supplementary letters patent.**

Item “e”. Continuance. Genstar is presently governed by the Canada Corporations Act (old act). A new act called the Canada Business Corporations Act (new act) to replace the old act came into force on December 15, 1975, and Genstar is obliged to be continued under the new act within five years from said date, otherwise it will be dissolved. In order that an internal reorganization between Genstar and certain of its subsidiaries may be completed and the benefits thereof obtained as soon as possible, it is advisable that Genstar be continued under the new act at this time. In the opinion of management, the material differences between the old and the new act, as it relates to Genstar, are as follows:

1. The new act provides amongst other things that all shares must be without nominal or par value. Consequently, it is necessary to restate the capital stock provisions of Genstar in the Articles of Continuance in order to conform to the new act. These changes are merely changes in language resulting from the new act and are not material or prejudicial to the shareholders and will not detrimentally affect their rights on dissolution, rights to dividends or other rights in accordance with the share provisions.
2. The new act permits an unlimited number of shares. As indicated in the Articles of Continuance, it is proposed that the common shares be unlimited as to number, the number of existing preferred shares not be changed and

the number of second preferred shares be limited to twenty million. Shareholder approval will no longer be necessary for further authorization of additional common shares after continuance.

3. The new act permits flexibility in the number of directors, and as indicated in the Articles of Continuance, the number of directors of Genstar will be such number, not less than ten nor more than twenty as may be determined from time to time by the directors. The old act requires that a fixed number of directors be stated.
4. Under the new act, a corporation has all the powers of a natural person and is not restricted in the businesses which it may carry on unless otherwise provided in its articles. The old act provides that a corporation has only those corporate powers set out in its Letters Patent, Supplementary Letters Patent, together with ancillary powers contained in the old act. It is proposed not to include in the Articles of Continuance any restriction on the businesses which Genstar may carry on.
5. Under the new act, so long as Genstar meets certain solvency tests, it will be permitted to purchase or otherwise acquire shares issued by it. The old act does not allow any such purchases except in the case of redeemable shares.
6. Under the new act, a majority of the directors or of any committee of the directors of Genstar must be resident Canadians and a majority of the directors present at any meeting of directors must be resident Canadians. The old act contains no Canadian residency requirements.
7. Under the new act, if a corporation makes certain amendments to its articles or takes certain other actions, shareholders have the right to dissent and require the corporation to purchase their shares in the corporation for fair value. This right does not apply in the case of the proposed continuance proceedings. The old act does not provide for such a procedure.

The Articles of Continuance amend the letters patent of Genstar and in effect become its charter after continuance.

It is proposed, therefore, that a special resolution (annexed hereto as Exhibit "B") authorizing the directors to apply for continuance under the new act with effect not before May 31, 1977, and approving the Articles of Continuance (also set out in said Exhibit "B") be passed at the Annual and Special General Meeting of the shareholders. **This special resolution must be passed by not less than two-thirds of the votes cast by the holders of the preferred shares and common shares voting together at such meeting.**

The existing capital stock provisions of Genstar require approval by the preferred shareholders of amendments thereto. To the extent that it may be necessary in the circumstances, it is proposed that resolutions approving the amendments involved in the proposed restatement of the capital stock provisions contained in the Articles of Continuance be passed at the class and serial meetings of the preferred shareholders. **The resolutions to be adopted at each meeting must be approved by at least two-thirds of the votes cast at each meeting.**

Item "F". Bearer Share Warrants. (Reference is made to Exhibit "C" page 51). The new act provides for registered shares only but the rights of the holders of registered shares outstanding at continuance to obtain bearer share warrants and the rights of the holders of then outstanding bearer share warrants are preserved. The holders of shares issued after continuance will not be entitled to bearer share warrants. If the holders of registered shares outstanding at the time of continuance were permitted to retain their right to obtain bearer share warrants thereafter, it would be necessary, in effect, to have two classes of shares — those that were issued prior to continuance and were entitled to obtain bearer share warrants and those that were issued after continuance and were not entitled to bearer share warrants. In order to avoid possible additional stock exchange listings, expense and confusion to shareholders and the public in general, the directors after full consideration of the matter have adopted a resolution terminating, effective upon continuance, the right to obtain bearer share warrants by the holders of registered shares outstanding at the time of continuance. Holders of outstanding registered shares who have that right will have the right to exchange their shares for bearer share warrants up to the time of continuance. After continuance, it is proposed to

establish a procedure whereby registered shareholders may obtain bearer deposit receipts or scrip giving them substantially the same rights and privileges as bearer share warrant holders. Details of the bearer deposit receipts or scrip procedure will be made available to registered shareholders who were heretofore entitled to obtain bearer share warrants.

It is proposed that resolutions be adopted at the Annual and Special General Meeting of shareholders and the meetings of the holders of Series B and C preferred shares approving the aforementioned resolution of directors. **The resolution must in each case be passed by not less than a majority of the votes cast by the holders of the preferred shares and common shares voting together at the Annual and Special General Meeting of shareholders and by not less than a majority of the votes cast by holders at each of the Series B and C preferred share meetings.**

Item "g". Acquisition of Abbey Glen Property Corporation. Genstar's interest in Abbey Glen arose principally because of the possibility of significantly increasing its lands for development in Western Canada, Ontario and Eastern United States. In June 1976, Genstar's management entered into negotiations with the majority shareholder of Abbey Glen, Capcount Overseas Limited, a subsidiary of Capital & Counties Property Limited of London, England. On July 15, 1976, pursuant to an Agreement between Genstar and Capcount Overseas Limited, Genstar's subsidiary Engineered Homes Limited acquired on July 28th, 1976, 7,326,099 common shares of Abbey Glen being 62.3% of the outstanding common shares for a cash purchase price of \$6.75 per share. One of the terms of the Agreement obligated Abbey Glen and Genstar to make available to the remaining shareholders of Abbey Glen the same or a similar price per share. On March 1, 1977, through an arrangement made with the remaining shareholders of Abbey Glen, Genstar purchased 100% control.

A description of the material features of the acquisition and the subsequent arrangement with minority shareholders are described in Exhibit "D" hereto, which forms part of this Proxy Statement. The New York Stock Exchange has asked that these transactions be submitted to Genstar's shareholders for approval at the forthcoming Annual Meeting. Failure of shareholders to approve these transactions will not affect their validity; however, in the event approval is not obtained, The New York Stock Exchange may take action with respect to the listing of Genstar's common shares on the Exchange. Although the New York Stock Exchange has not indicated any specific action they would take, there is the possibility that they may decide to delist Genstar's common shares on the Exchange. Management believes trading volume in the United States is not significant and such action would not affect trading volume to any great degree. American shareholders would still have access to the "over-the-counter market" in the United States in addition to the other exchanges Genstar is listed on, namely Toronto, Montreal, Alberta, Vancouver, Brussels and Antwerp. **The resolution must be passed by not less than a majority of the votes cast by holders of the preferred shares and common voting together.**

PERSONS MAKING THE SOLICITATION

The accompanying proxy or proxies is/are being solicited by the management of Genstar Limited (herein referred to as "Genstar") for use at the Annual and Special General Meeting of Shareholders and the meetings of the preferred shareholders as a class and in series of Genstar to be held on April 25, 1977 at the times, place and for the purposes set forth in the foregoing notices of meetings, and any adjournment or adjournments thereof. The total cost of solicitation of proxies will be borne by Genstar. The solicitation will be made primarily by mail. However, directors, officers and regular employees of Genstar may also solicit proxies by telephone, telegram or by personal interview and it is anticipated that banks, brokerage houses and other custodians, nominees or fiduciaries will be requested to forward the soliciting material to their principals and to obtain authorizations for the execution of proxies. Genstar may, upon request, reimburse banks, brokerage houses and other institutions, nominees and fiduciaries for their expenses in forwarding proxy material to their principals. In addition, the directors of Genstar have appointed the depositaries listed in three of the Notices of Meetings for the purpose of receiving deposits of bearer share warrants and of issuing to any depositor a receipt therefor and a voting certificate entitling such depositor to attend and vote at the particular meeting in person or by proxy.

APPOINTMENT AND REVOCATION OF PROXIES

A shareholder has the right to appoint a person to act as proxy at the particular meeting, other than the persons whose names are printed as proxy in the accompanying form or forms of proxy, by striking out the said printed names and by inserting the name of his chosen proxy in the blank space provided for that purpose in the form or forms of proxy. A shareholder who executes and returns the accompanying form or forms of proxy has the power to revoke it at any time before it or they is/are acted upon. Bearer share warrant holders may attend and vote at any meeting at which they are entitled to vote if (a) they produce their bearer share warrants at the meeting, or (b) they deposit their bearer share warrants at one of the offices of the depositaries listed in three of the Notices of Meetings with a statement setting out their names and addresses, and shall have obtained in exchange appropriate receipts and voting certificates stating their names and addresses and the number of shares represented by the deposited bearer share warrants. Any holder of bearer share warrants receiving a voting certificate as aforesaid shall also be entitled to appoint a proxy to attend, act and vote for and on his behalf at the meeting.

ACTION TO BE TAKEN UNDER THE PROXIES

Shares represented by proxies in the accompanying form or forms of proxy will be voted in accordance with instructions indicated thereon. If no contrary instruction is indicated, shares represented by such proxies will (i) in respect of the Annual and Special General Meeting of Shareholders, be voted for the election of the nominees named below to serve as directors until the next annual meeting and "For" the proposals set forth in clauses (c) to (g) of the notice of such meeting (clauses (ii) to (vi) of the proxy card) and at the discretion of the proxy, in respect of clause (h) thereof (clause (vii) of the proxy card), and (ii) in respect of the other five meetings, be voted "For" the proposals set forth in the notices of such meetings (clause (i) of the proxy card and in the case of the meetings of holders of Series B and Series C Preferred shares clauses (i) and (ii) of the proxy card). Should any nominee named herein for the office of director become unable to accept nomination or election, it is intended that the persons acting under proxy will vote for the election in his stead of such other person as the management of Genstar may recommend. The management has no reason to believe that any of the said nominees will be unable to serve if elected to office.

The accompanying form or forms of proxy confer(s) discretionary authority upon the persons named therein in voting on such other business as may properly be brought before the particular meeting. As of the date of this Proxy Statement, the management knows of no such other business other than the matters referred to in the Notices of Meetings.

QUORUM

The share quorum at the Annual and Special General Meeting of Shareholders is not less than 25% of the outstanding shares, including not less than 50% in number of the outstanding registered shares. The share quorum for each of the other five meetings is not less than a majority of the outstanding shares entitled to vote thereat with provision for an automatic quorum at the first adjournment if no quorum at the original meeting.

NOMINEES FOR ELECTION AS DIRECTORS AND OWNERSHIP OF SECURITIES

The Board of Directors of Genstar presently consists of 20 directors to be elected annually. Each nominee will hold office until the 1978 Annual General Meeting of Shareholders or until the election of his successor, unless he

shall resign or his office become vacant by death, removal or other cause in accordance with the By-laws of Genstar. Messrs. de Bar, Cope, Franck, MacNaughton, McLaughlin and Turner are members of the Executive Committee of the Board. The names of all nominees for directors, their principal occupation, the year in which they became directors of Genstar and the number of shares beneficially owned by them directly or indirectly, as of March 1, 1977, are as follows:

Name, Position with Genstar and Principal Occupation	Director Since	Common Shares of Genstar owned beneficially as of March 1, 1977	Convertible Preferred Voting Shares of Genstar owned beneficially as of March 1, 1977		
			Series		
			A	B	D
Charles de Bar, Deputy Chairman of the Board of Genstar	1964	—	—	—	—
Yves Boël, Managing Director of Sofina S.A. (Investment Company)	1969	—	—	—	—
James W. Burns, President and Chief Executive Officer The Great-West Life Assurance Company (Insurance Company)	1977	—	—	—	—
Frank S. Capon, Consultant	1973	200	—	—	—
F. Campbell Cope, Q.C., Partner — Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard (Barristers and Solicitors) Montreal, Quebec	1957	5,595	—	244	—
John S. Duthie, Director, The Associated Portland Cement Manufacturers Limited (Manufacturers and Distributors of Cement)	1974	—	—	—	—
August A. Franck, Chairman of the Board of Genstar	1964	31,700	—	29	—
Kelly H. Gibson, Chairman of the Board Westcoast Transmission Company Limited (Gas Transmission)	1976	—	—	—	—
John B. Hamilton, Q.C., Partner — Hamilton, Torrance (Barristers and Solicitors) Toronto, Ontario	1976	550	—	—	450
Louis A.-Lapointe, Q.C., Chairman of the Board of Miron Company Ltd., a subsidiary of Genstar (Cement, Building Materials and Construction)	1974	3,000	135	264	—

Name, Position with Genstar and Principal Occupation	Director Since	Common Shares of Genstar owned beneficially as of March 1, 1977	Convertible Preferred Voting Shares of Genstar owned beneficially as of March 1, 1977		
			Series		
			A	B	D
Raymond Lavoie, Vice Chairman of the Board, President and Chief Executive Officer, Crédit Foncier Franco-Canadien (Financial Institution)	1974	—	38	58	—
Walter F. Light, President of Northern Telecom Limited (Telecommunications Equipment Manufacturer)	1976	100	—	—	—
Angus A. MacNaughton, Vice Chairman of the Board and Chief Executive Officer of Genstar	1969	75,445	—	—	—
W. Earle McLaughlin, Chairman and President of The Royal Bank of Canada (A Canadian Chartered Bank)	1961	100	—	—	—
John D. Milne, Managing Director, The Associated Portland Cement Manufacturers Limited (Manufacturers and Distributors of Cement)	1972	—	—	—	—
Max Nokin, Honorary Governor of Société Générale de Belgique (Investment Company)	1955	4,441	—	—	—
Robert G. Rogers, Chairman of the Board and Chief Executive Officer of Crown Zellerbach Canada Limited (Pulp and Paper Products)	1974	—	—	—	—
Saul Simkin, Chairman of the Board of Kins Management Limited (Consultants)	1968	238(1)	—	—	—
Ross J. Turner, President and Chief Executive Officer of Genstar	1973	65,002	—	—	—
William S. Ziegler, Consultant	1965	23,500	—	—	500

Note (1):

Does not include 99,087 Common Shares of Genstar owned by Jadia Investments Ltd., a company owned by members of Mr. Simkin's family, not residing with him and of which Mr. Simkin is the principal creditor. Mr. Simkin disclaims beneficial ownership of Genstar's shares held by Jadia Investments Ltd.

All of the nominees are present directors of Genstar and except for Messers, Burns, Gibson, Hamilton and Light were elected at the 1976 Annual General Meeting of Shareholders. Messrs. Burns, Gibson, and Hamilton have held their present principal occupations for more than five years. Mr. Light was Executive Vice-President, Operations, of Bell Canada, from September 1970 until the appointment to his present position in August, 1974 as President of Northern Telecom Limited.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The voting and equity securities of Genstar are the Common Shares without nominal or par value of which 12,307,673 were outstanding and of which 9,128,468 were registered and 3,179,205 were represented by bearer share warrants and the Convertible Preferred Voting Shares Series A, B, C and D of the par value of \$20 each of which 38,554, 517,524, 43,127, and 369,247 respectively were outstanding and of which a total of 753,058 were registered and 215,394 were represented by bearer share warrants (Series B only) at the close of business on March 1, 1977. Each Common and Convertible Preferred Voting Share on the meeting date will be entitled to one vote. Unless otherwise stated, all matters to be voted on at the meetings will be decided by a majority of the votes cast. Persons who are holders of registered or bearer Common Shares and/or registered or bearer Convertible Preferred Voting Shares up to and including the meeting date will be entitled to vote. Information as to the ownership of the Common and Convertible Preferred Voting Shares represented by bearer share warrants is not available to Genstar but to the knowledge of Genstar as at March 1, 1977 there was no shareholder owning more than 10% of any class of voting and equity securities of Genstar including those represented by bearer share warrants except as follows:

<u>Name and Address</u>	<u>Designation of Class</u>	<u>Type of Ownership</u>	<u>Number of Shares owned</u>	<u>Percentage of Class</u>	<u>Percentage of total Voting Shares</u>
Associated International Cement Limited Portland House Stag Place London, England	Common Shares	Beneficial direct	1,427,400	11.6%	10.8%
S. A. Cimenteries CBR (1) Cementbedrijven, N.V.	Preferred Shares	Beneficial direct and	43,127	4.50%	0.33%
185 Chaussée de la Hulpe 1170 Brussels, Belgium	Common Shares	indirect	453,704	3.70%	3.40%
Union Minière S.A. (1) 1 Rue de la Chancellerie 1000 Brussels, Belgium	Preferred Shares	Beneficial indirect	194,029	20.0%	1.50%

- (1) Société Générale de Belgique (SGB), 30 Rue Royale, Brussels, Belgium has a beneficial share interest in these companies of approximately 26% and 18% respectively. SGB was the founder of Genstar and at one time exercised control through share ownership and majority representation on Genstar's Board of Directors. In view of changes over the years in the membership of the Board and numerous issues of voting shares through public offerings and acquisition transactions (which have reduced the direct ownership in Genstar of SGB and its subsidiaries to approximately 6.4% and the holdings of companies, including the two mentioned above, in which SGB has a minority interest, to approximately 14.2%) and other circumstances, Genstar is no longer, in the opinion of its Directors and Management, controlled by SGB or, for that matter, by any one shareholder or related group of shareholders.

REMUNERATION AND OTHER TRANSACTIONS WITH MANAGEMENT AND OTHERS

(All figures are in Canadian dollars)

The tabulation below shows the aggregate direct remuneration for services rendered in all capacities and accrued during 1976 by Genstar and its subsidiaries to or for the benefit of (i) each director of Genstar whose aggregate direct remuneration exceeded \$40,000 and each of the three highest paid officers of Genstar whose aggregate direct remuneration exceeded that amount and (ii) all directors and officers of Genstar separately and as a group. The tabulation also shows the total amount of annual benefits estimated to be payable to each named person and group pursuant to Genstar's Retirement Plan for salaried employees.

Name of individuals or identity of group	Capacity in which remuneration was received	Aggregate direct remuneration paid with respect to 1976	Aggregate direct remuneration paid with respect to prior years	Aggregate direct remuneration payable (2)	Estimated annual benefit upon retirement (3)
August A. Franck	Chairman and Director	\$ 75,000	\$286,198	\$374,750	\$98,197
Charles de Bar	Deputy Chairman and Director	91,600	107,653	243,750	36,688
Angus A. MacNaughton	Vice Chairman, Chief Executive Officer and Director	125,300	113,638	334,750	81,351
Ross J. Turner	President, Chief Executive Officer and Director	124,700	100,184	334,750	63,865
		(Total of Fees and Salaries) Aggregate direct remuneration paid with respect to 1976	(Other) Aggregate direct remuneration paid with respect to prior years		
				Aggregate direct remuneration payable (2)	Estimated annual benefit upon retirement (3)
		(Fees)	(Salaries)		

Remuneration of Directors as a group (1)

(including 4 who are also
officers and 3 who
resigned during 1976)

(A) Number of directors: 23

(B) Body Corporate
incurring the expense:

Genstar	\$83,100	\$471,600	\$554,700	\$607,673	\$1,288,000	\$280,101
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Remuneration of Officers as a group

(including 4 who are also
directors and 1 who
resigned during 1976)

(A) Number of officers: 20

(B) Body Corporate
incurring the expense:

Genstar	19,100	908,657	927,757	698,706	1,613,707	562,624
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Remuneration of Directors and Officers as a group

(43 persons)	83,100	982,757	1,065,857	698,706	1,613,707	562,624
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- (1) Does not include legal fees of \$152,510 to be paid for the year 1976 to Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard, of which Mr. F. Campbell Cope, Q.C., a director of Genstar, is a partner and legal fees of \$14,880.37 paid for the year 1976 to Hamilton, Torrance, of which Mr. John B. Hamilton, Q.C., a director of Genstar, is a partner.
- (2) The amounts shown under this column represent the unpaid portion of incentive remuneration awarded with respect to the years 1973, 1974, 1975 and 1976 and amounts held in deferred compensation plans. These amounts will be paid by varying yearly instalments over not less than the next four years beginning in 1977 or, in the case of deferred compensation plans, on retirement, and such payments are dependent upon continued employment with Genstar or its subsidiaries.
- (3) Amounts set aside and accrued during the year in respect of these benefits are computed on an actuarial basis. Mr. A. A. Franck may elect to receive as a lump sum payment prior to his retirement part of amounts set aside and accrued for his retirement benefits.

In addition to the above \$87,400 is payable in varying yearly instalments to Mr. A. A. Franck pursuant to a deferred compensation agreement from January 1, 1977 to December 31, 1981.

EMPLOYEE INCENTIVE STOCK OPTION PLAN

Mr. Charles de Bar is the only director of Genstar holding unexercised options with respect to Genstar Common Shares as at March 1, 1977. As at March 1, 1977 Mr. de Bar held options to purchase 18,000 Common Shares at an average option price of \$12.37 per share. The plan provides that options expire ten years from the date they are granted, or upon termination of the optionee's employment with Genstar.

STOCK PURCHASE PLAN

Pursuant to the Stock Purchase Plan adopted on February 25, 1969, Trustees of said Plan may acquire Common Shares of Genstar to be purchased by officers and employees, including salaried directors, designated by the Trustees at the same price paid by the Trustees. Each person purchasing Common Shares under the Plan furnishes the Trustees with a down payment of not less than 1% of the purchase price with the balance payable within seven years. Interest at the rate of 5% per annum is payable on the unpaid balance. An aggregate of 297,219 Common Shares (including the shares mentioned in the table below) have been acquired from Genstar and are still being held by the Trustees for an aggregate purchase price of \$5,137,308 being approximately 99% of the aggregate market value (\$5,172,142) of said Common Shares on the day preceding the date on which rights were given to designated officers and employees to purchase the said Common Shares. Of said aggregate purchase price \$4,929,579 was advanced by Genstar and \$207,729 was paid by designated officers and employees as at March 1, 1977. Since January 1, 1976 the following designated directors and officers have purchased 63,000 Common Shares under the Plan at the prices and in the amounts shown and no further purchases have been made by them to March 1, 1977.

	Number of Shares	Price Per Share	Market Value of Shares
	1976	1976	1976
A. A. MacNaughton	25,000	21.65	21.75
R. J. Turner	25,000	21.65	21.75
All Directors and Officers including the foregoing as a group	63,000(1)	21.65	21.75
(6 persons of which 6 are officers and 2 are directors.)			

- (1) These shares were purchased on November 8, 1976 by the Trustee. The high and low sales prices of said shares during the 30 days preceding said date were respectively \$22.25 and \$21.75.

SALARIED EMPLOYEES' STOCK SAVINGS PLAN

On November 17, 1976 Genstar adopted by resolution of the Board of Directors pursuant to By-Law No. 34, the Salaried Employees' Stock Savings Plan whereby the trustee of said plan may acquire common shares of Genstar on the open market for salaried employees of Genstar. Employees must apply to purchase shares during the enrolment period which extends from the third Friday in December to December 31. The price paid by the employee is the closing price for board lots of Genstar common shares on the Toronto Stock Exchange at a predetermined date. The employee pays for the shares purchased by regular monthly salary deductions over a period not exceeding twelve months. The number of shares an employee may purchase is dependent upon his salary level. The plan is open to any salaried employee of Genstar and its subsidiaries who has a minimum of twelve months continuous service and is not a resident or citizen of the United States, its territories or possessions. During the 1976 enrolment period employees subscribed for 36,809 shares under the plan. Of these shares, Mr. A. A. MacNaughton, a director and officer, has subscribed for 45 shares. All directors and officers, as a group, (comprising 8 persons of which 8 are officers and 1 is a director) have purchased a total of 815 shares. No further purchases have been made by any directors or officers since March 1, 1977. The price per share and the market value of the shares on the date of purchase (December 17, 1976) was \$21.875. The high and low sales prices of said shares during the 30 days preceding said date were respectively \$22.00 and \$19.75.

INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

Mr. James W. Burns, a director of Genstar, is President and Chief Executive Officer of The Great-West Life Assurance Company from which Genstar purchases group life insurance. Premiums totaling \$1,971,700 were paid by Genstar to Great-West during 1976.

Mr. John B. Hamilton, Q.C., is Chairman of the Board of Abbey Glen Property Corporation (Abbey Glen) and has served in that capacity since July 29, 1975. On November 17, 1976 Mr. Hamilton was elected a director of Genstar. On July 28, 1976, Genstar, through a subsidiary company, purchased 62.3% of the outstanding common shares of Abbey Glen and since that date through an arrangement made with the minority shareholders of Abbey Glen, has increased its percentage ownership to 100%. For more details of the Abbey Glen transactions, refer to Exhibit "D" of this Proxy Statement. On July 28, 1976, the date of the acquisition, Mr. Hamilton owned 1,500 shares of Abbey Glen which he subsequently converted to 450 series D preferred shares of Genstar pursuant to the arrangement.

Mr. W. Earle McLaughlin, a director of Genstar, is Chairman and President of The Royal Bank of Canada (Royal Bank) with which Genstar maintains normal banking relationships. As of December 31, 1976, Genstar had no long-term borrowings with the Royal Bank. At December 31, 1976, the short-term borrowings of Genstar and its subsidiaries and Genstar alone with Royal Bank amounted to \$21,679,000 and \$2,900,030 respectively, with interest principally at Royal Bank's prime rate. The Royal Bank's prime rate during 1976 ranged from a low of 9¹/₄% to a high of 10¹/₄%. Because the short-term borrowings of each subsidiary from the Royal Bank fluctuate throughout the year it is impractical to calculate the total interest paid by Genstar and its subsidiaries during 1976. Total interest paid by Genstar alone to the Royal Bank on long and short-term borrowing was \$268,773.36 for the year 1976.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Genstar provides liability insurance for its directors and officers in those capacities. The premium for the year 1976 was \$10,000 for directors and \$10,000 for officers, all of which was paid by Genstar. The policy will pay 95% of the excess over \$20,000 and 100% of the excess over \$1 million for each loss to a maximum limit of \$5 million per occurrence provided the limit is not exhausted or diminished by prior claims. Under the policy, Genstar is insured against any loss arising out of any liability to indemnify a director or an officer and individual directors and officers are insured against any loss arising out of any wrongful act.

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy for use at the Annual and Special General Meeting intend to vote such proxy in favour of the appointment of Messrs. Coopers & Lybrand, Chartered Accountants, as auditors of Genstar to hold office until the next Annual General Meeting of Shareholders at a remuneration to be fixed by the Board of Directors.

Arrangements have been made for one or more representatives of Messrs. Coopers & Lybrand to attend the Annual and Special General Meeting of Shareholders and said representative(s) will be available to answer appropriate questions.

The Audit Committee of the Board of Directors of Genstar is composed of the following Directors:

Frank S. Capon	— Chairman of the Committee
F. Campbell Cope, Q.C.	— Member
Raymond Lavoie	— Member

FINANCIAL STATEMENTS

The Consolidated Financial Statements of Genstar and the Consolidated Summary of Operations included in Genstar's 1976 Annual Report are hereby incorporated by reference in this Proxy Statement. See Exhibit A — Increase in Capital and Exhibit D — Acquisition of Abbey Glen Property Corporation.

OTHER MATTERS

The management of Genstar knows of no amendment or variation of the matters referred to in the Notices of Meetings or of no other business to be brought before the meeting other than those matters referred to in the Notice of Meeting. However, if any amendment, variation or other business should properly be brought before any meeting, the accompanying forms of proxy confer discretionary authority upon the persons named therein to vote upon any amendment or variation of the matters referred to in the Notices of Meetings or on such other business in accordance with their best judgment.

The contents of this proxy statement and the sending thereof has been approved by the directors of Genstar.

Montreal, Quebec, Canada, March 1, 1977.

By Order of the Board
Stuart Mackay-Smith
Assistant Secretary

Exhibit “A”

BY-LAW 41

INCREASE OF AUTHORIZED CAPITAL STOCK

WHEREAS the authorized capital stock of the Corporation consists of 5,000,000 preferred shares of the par value of \$20 each, issuable in series, and 15,000,000 common shares without nominal or par value, provided, however, that the consideration for the issue of the said 15,000,000 common shares without nominal or par value shall not exceed in money or money's worth an aggregate value of \$200,000,000 or such greater amount as may be authorized by the Minister of Consumer and Corporate Affairs upon payment of the requisite fee applicable to such greater amount; and

WHEREAS as of January 31, 1977, 1,343,965 of said preferred shares were outstanding namely, 122,747 Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares, 848,037 Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares, 43,127 Series C Convertible Redeemable Preferred Shares and 330,054 Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares, and 12,699,118 of said common shares (including 806,151 common shares reacquired by the Corporation as a result of a reorganization) were outstanding.

NOW THEREFORE, BE IT AND IT IS HEREBY ENACTED AS FOLLOWS: —

1. Subject to confirmation by supplementary letters patent, the capital stock of the Corporation is hereby increased by the creation of 20,000,000 shares of a class of second preferred shares of the par value of \$20 each issuable in series which shall carry and be subject to the preferences, rights, restrictions, conditions, limitations and prohibitions hereinafter set forth, so that the capital stock of the Corporation shall, after the issue of said supplementary letters patent, consist of (a) 5,000,000 preferred shares of the par value of \$20 each issuable in series of which preferred shares there has been designated 457,978 shares as Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares, 1,205,970 shares as Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares, 43,127 shares as Series C Convertible Redeemable Preferred Shares and 1,726,476 shares as Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares, (b) 20,000,000 second preferred shares of the par value of \$20 each issuable in series and (c) 15,000,000 common shares without nominal or par value; provided, however, that the consideration for the issue of said 15,000,000 common shares without nominal or par value shall not exceed in money or money's worth an aggregate value of \$200,000,000 or such greater amount as may be authorized by the Minister of Consumer and Corporate Affairs upon payment of the requisite fee applicable to such greater amount.

2. The said second preferred shares (herein called the “Second Preferred Shares”) shall as a class carry and be subject to the following rights, privileges, restrictions and conditions:

2.1 The Second Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by resolution of the board of directors of the Corporation.

2.2 The board of directors of the Corporation shall, subject as hereinafter provided and subject to the laws governing the Corporation, determine, by resolution duly passed before the issue of the Second Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions to be attached to the Second Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing: —

- (i) provisions, if any, with respect to the rights of the holders of the Second Preferred Shares of each series to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting;
- (ii) the rate, amount or method of calculation of preferential dividends, whether or not cumulative or non-cumulative or partially cumulative, and whether such rate, amount or method of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and places of payment thereof and the date or dates from which such preferential dividends shall accrue;

- (iii) the rights of the Corporation, if any, to purchase or redeem the same and the consideration for and the terms and conditions of any such purchase or redemption;
- (iv) the rights of conversion and/or exchange, if any, and the rates and other terms and conditions of any such rights;
- (v) the rights of retraction, if any, vested in the holders of shares of such series, and the prices and the other terms and conditions of any rights of retraction, and whether any additional rights of retraction may be vested in such holders in the future;
- (vi) the terms and conditions of any share purchase plan or sinking fund; and
- (vii) the restrictions, if any, respecting payment of dividends on the common shares or on any other shares ranking junior to the Second Preferred Shares;

the whole subject to such confirmation or filing as is required by the laws governing the Corporation.

2.3 The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares shall be subject and subordinate to those attaching to the preferred shares of the par value of \$20 each issuable in series of the capital stock of the Corporation.

2.4 The Second Preferred Shares shall, with respect to the payment of dividends, be entitled to preference over the common shares of the Corporation and over any other shares ranking junior to the Second Preferred Shares and no dividends shall at any time be declared or paid or set apart for payment on the common shares or on any other shares of the Corporation ranking junior to the Second Preferred Shares, nor shall the Corporation call for redemption or purchase any of the Second Preferred Shares (less than the total number of Second Preferred Shares then outstanding) or any shares of the Corporation ranking junior to the Second Preferred Shares unless at the date (the particular time) of such declaration or call for redemption or purchase, as the case may be, all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Second Preferred Shares then issued and outstanding and, in respect of each series of non-cumulative Second Preferred Shares then issued and outstanding, there shall have been paid or set apart for payment all declared and unpaid non-cumulative dividends plus an amount equal to all undeclared dividends for and in respect of the 12-month period ending not more than 3 months before the particular time; provided, however, that, in the case of any Second Preferred Shares not outstanding for the whole of said 12-month period, said amount may, if deemed feasible in the discretion of the directors, be appropriately proportionately reduced.

2.5 In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among shareholders for the purpose of winding-up its affairs, the holders of the Second Preferred Shares shall, before any amount shall be paid to or any property or assets of the Corporation distributed among the holders of the common shares or any other shares of the Corporation ranking junior to the Second Preferred Shares, be entitled to receive (i) an amount equal to the price at which such shares were issued together with, in the case of cumulative Second Preferred Shares, all unpaid cumulative dividends (which for such purpose shall be calculated as if such cumulative dividends were accruing from day to day for the period from the expiration of the last period for which cumulative dividends have been paid up to and including the date of distribution) and, in the case of non-cumulative Second Preferred Shares, all declared and unpaid non-cumulative dividends, and (ii) if such liquidation, dissolution, winding-up or distribution shall be voluntary, an additional amount equal to the premium, if any, which would have been payable on the redemption of said Second Preferred Shares respectively if they had been called for redemption by the Corporation on the date of distribution and, if said Second Preferred Shares could not be redeemed on such date, then an additional amount equal to the greatest premium, if any, which would have been payable on the redemption of said Second Preferred Shares respectively. After payment to the holders of the Second Preferred Shares of the amounts so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

2.6 The Second Preferred Shares of each series shall rank on a parity with the Second Preferred Shares of every other series with respect to the payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, provided, however, that in case such assets are insufficient to pay in full the amount due on all the Second Preferred Shares, then

such assets shall be applied, firstly, to the payment equally and rateably of an amount equal to the price at which the Second Preferred Shares of each series were issued and the premium thereon, if any, and, secondly, *pro rata* in the payment of accrued and unpaid cumulative dividends and declared and unpaid non-cumulative dividends.

2.7 The holders of the Second Preferred Shares shall not, as such, be entitled as of right to subscribe for or to purchase or receive the whole or any part of any shares, bonds, debentures or other securities or any rights to acquire the same, which may from time to time be issued by the Corporation except in accordance with any conversion, exchange or other rights set forth in the rights, privileges, restrictions and conditions attaching to the Second Preferred Shares of any series.

2.8 The provisions of paragraphs 2.1 to 2.7, inclusive, and of this paragraph 2.8 may be deleted, varied, modified, amended or amplified in whole or in part, but only with the prior approval of the holders of the Second Preferred Shares given as hereinafter specified.

The approval of the holders of the Second Preferred Shares with respect to any and all matters hereinbefore referred to may be given in writing by the holders of not less than two-thirds of the Second Preferred Shares for the time being outstanding or by resolution duly passed by not less than two-thirds of the votes cast on a poll at a meeting of the holders of the Second Preferred Shares duly called and held for the purpose of considering the subject matter of such resolution and at which meeting the holders of not less than a majority of the outstanding Second Preferred Shares are present in person or represented by proxy in accordance with the by-laws of the Corporation; provided, however, that, if at any such meeting, when originally held, the holders of at least a majority of the outstanding Second Preferred Shares are not present in person or so represented by proxy within thirty (30) minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than fifteen (15) nor more than twenty-nine (29) days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of Second Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than a majority of all Second Preferred Shares then outstanding, may transact the business for which the meeting was originally called, and a resolution duly passed and carried thereat by not less than two-thirds (2/3) of the votes cast on a poll at such adjourned meeting shall constitute the approval of the holders of the Second Preferred Shares hereinbefore mentioned. Notice of any such original meeting of the holders of the Second Preferred Shares shall be given not less than twenty-one (21) nor more than fifty (50) days prior to the date fixed for such meeting and shall state the nature of the business to be transacted and the text of any resolution to be submitted to the meeting. No notice of the adjourned meeting need be given other than by announcement at the original meeting. The formalities to be observed with respect to the giving of notice of any such original meeting and the conduct of such meeting and of the adjourned meeting shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders or in the laws governing the Corporation.

If the deletion, variation, modification, amendment or amplification of the provisions hereinbefore contained especially affects the rights of the holders of Second Preferred Shares of any series, in a manner different from that in or to which the rights of the holders of Second Preferred Shares of any other series are affected, then such deletion, variation, modification, amendment or amplification shall, in addition to being approved by the holders of the Second Preferred Shares as hereinabove set forth, be approved by the holders of the Second Preferred Shares of such series so especially affected, which approval may be given in writing by the holders of not less than two-thirds of the Second Preferred Shares of such series or by resolution passed by not less than two-thirds of the votes cast on a poll at a meeting of the holders of the Second Preferred Shares of such series, and the provisions of this paragraph 2.8 shall apply, *mutatis mutandis*, with respect to the holding of such meeting.

At any meeting of the holders of Second Preferred Shares, without distinction as to series, each holder of Second Preferred Shares shall be entitled to one (1) vote in respect of each Second Preferred Share held by him. At any meeting of the holders of Second Preferred Shares of any particular series, each holder shall be entitled to one (1) vote in respect of each Second Preferred Share of such series held by him.

3. Any two officers or any two directors or any officer acting with any director of the Corporation are hereby authorized for and on behalf and in the name of the Corporation to apply for supplementary letters patent confirming this by-law.

Exhibit “B”

SPECIAL RESOLUTION

RESOLVED as a Special Resolution:

THAT the directors of the Corporation be and they are hereby authorized pursuant to Section 261 of the Canada Business Corporations Act to apply for a Certificate of Continuance under Section 181 of the said Act to continue the Corporation under the said Act but not before May 31, 1977;

THAT the Articles of Continuance of the Corporation forming a part of this Special Resolution and submitted to this meeting be and the same are hereby approved;

THAT the letters patent dated May 9, 1951 incorporating the Corporation under Part I of The Companies Act (Canada) as the same have been amended and supplemented by supplementary letters patent be and the same are hereby amended by substituting for all provisions thereof the provisions set out in the said Articles of Continuance, without affecting the validity of any act done pursuant to said letters patent or supplementary letters patent; and

THAT any director or any officer of the Corporation be and he is hereby authorized to sign and deliver for and on behalf of the Corporation the said Articles of Continuance and to sign and deliver such other notices and documents and to do such other acts and things as may be considered necessary or desirable to continue the Corporation under the Canada Business Corporations Act and to give effect to this Special Resolution.

ARTICLES OF CONTINUANCE

1. NAME OF CORPORATION

The name of the Corporation is GENSTAR LIMITED — GENSTAR LIMITÉE.

2. REGISTERED OFFICE

The registered office of the Corporation is situated in the Territory of the Montreal Urban Community, in the Province of Quebec.

3. CAPITAL

The classes of shares and, where applicable, the maximum number of shares that the Corporation is authorized to issue are as follows:

- (a) 5,000,000 preferred shares without nominal or par value issuable in series (herein referred to as the “Preferred Shares”) of which Preferred Shares the Directors of the Corporation have, prior to the date hereof, fixed and determined that an aggregate of 3,433,551 shares shall be designated as four series, as hereinafter set forth, and the remaining 1,566,449 shares are presently authorized to be issued in series; the said 3,433,551 Preferred Shares so designated consisted of:
 - (i) 457,978 Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares (herein referred to as the “Series A Preferred Shares”);
 - (ii) 1,205,970 Series B \$1.20 Non-Cumulative Convertible Redeemable Preferred Shares (herein referred to as the “Series B Preferred Shares”);
 - (iii) 43,127 Series C Convertible Redeemable Preferred Shares (herein referred to as the “Series C Preferred Shares”); and
 - (iv) 1,726,476 Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares (herein referred to as the “Series D Preferred Shares”);

- (b) 20,000,000 second preferred shares without nominal or par value issuable in series (herein referred to as the “Second Preferred Shares”); and
- (c) an unlimited number of common shares without nominal or par value (herein referred to as the “Common Shares”).

The rights, privileges, restrictions and conditions attaching to each class of shares and each existing series of shares of the Corporation are set out in Schedule I annexed to these Articles of Continuance.

4. RESTRICTIONS ON SHARE TRANSFERS

There are no restrictions in these Articles on the transfers of shares of the Corporation.

5. NUMBER OF DIRECTORS

The board of directors of the Corporation shall consist of such number, not less than 10 and not more than 20, as may be determined from time to time by the directors.

6. RESTRICTIONS ON BUSINESS

There are no restrictions in these Articles on the business which the Corporation may carry on.

7. OTHER PROVISION

For the purposes of the Special Corporate Powers Act of the Province of Quebec and without in any way limiting the powers conferred upon the Corporation and its directors by section 183 or any other provisions of the Canada Business Corporations Act, the Corporation may, for the purpose of securing any bonds, debentures or debenture stock which it is by law entitled to issue, hypothecate, mortgage or pledge, and cede and transfer, any property, moveable or immovable, present or future, which it may own in the Province of Quebec.

SCHEDULE I
TO THE ARTICLES OF CONTINUANCE
OF
GENSTAR LIMITED — GENSTAR LIMITÉE

The rights, privileges, restrictions and conditions attaching to each class of shares and each existing series of shares of the Corporation are as follows:

3.1 Preferred Shares as a Class

The Preferred Shares shall as a class carry and be subject to the following rights, privileges, restrictions and conditions:

3.1.1 The Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by resolution of the board of directors of the Corporation.

3.1.2 The board of directors of the Corporation shall, subject as hereinafter provided and subject to the provisions of the Canada Business Corporations Act, determine, by resolution duly passed before the issue of the Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions to be attached to the Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing:—

- (i) provisions, if any, with respect to the rights of the holders of the Preferred Shares of each series to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting;
- (ii) the rate or amount of preferential dividends, whether or not cumulative or non-cumulative, the currency or currencies of payment, the date or dates and places of payment thereof and the date or dates from which such preferential dividends shall accrue;
- (iii) the rights of the Corporation, if any, to purchase or redeem the same and the consideration for and the terms and conditions of any such purchase or redemption;
- (iv) the conversion rights, if any;
- (v) the terms and conditions of any share purchase plan or sinking fund; and
- (vi) the restrictions, if any, respecting payment of dividends on the Common Shares or on any other shares ranking junior to the Preferred Shares;

the whole subject to the issue of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions to be attached to the Preferred Shares of such series.

3.1.3 The Preferred Shares shall, with respect to the payment of dividends, be entitled to preference over the Common Shares and over any other shares ranking junior to the Preferred Shares and no dividends shall at any time be declared or paid or set apart for payment on the Common Shares or on any other shares of the Corporation ranking junior to the Preferred Shares, nor shall the Corporation call for redemption or purchase any of the Preferred Shares (less than the total number of Preferred Shares then outstanding) or any shares of the Corporation ranking junior to the Preferred Shares unless at the date of such declaration or call for redemption or purchase, as the case may be, all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Preferred Shares then issued and outstanding and the non-cumulative dividend payment for the then current fiscal year and any declared and unpaid non-cumulative dividends shall have been paid or set apart for payment in respect of each series of non-cumulative Preferred Shares then issued and outstanding.

3.1.4 In the event of the liquidation, dissolution or winding up of the Corporation or other distribution of assets of the Corporation among shareholders for the purpose of winding up its affairs, the holders of the Preferred Shares shall, before any amount shall be paid to or any property or assets of the Corporation distributed among the holders of the Common Shares or any other shares of the Corporation ranking junior to the Preferred Shares, be entitled to receive (i) an amount equal to the price at which such shares were issued

together with, in the case of cumulative Preferred Shares, all unpaid cumulative dividends (which for such purpose shall be calculated as if such cumulative dividends were accruing from day to day for the period from the expiration of the last period for which cumulative dividends have been paid up to and including the date of distribution) and, in the case of non-cumulative Preferred Shares, all declared and unpaid non-cumulative dividends, and (ii) if such liquidation, dissolution, winding up or distribution shall be voluntary, an additional amount equal to the premium, if any, which would have been payable on the redemption of said Preferred Shares respectively if they had been called for redemption by the Corporation on the date of distribution and, if said Preferred Shares could not be redeemed on such date, then an additional amount equal to the greatest premium, if any, which would have been payable on the redemption of said Preferred Shares respectively. After payment to the holders of the Preferred Shares of the amounts so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

3.1.5 The Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to the payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, provided, however, that in case such assets are insufficient to pay in full the amount due on all the Preferred Shares, then such assets shall be applied, firstly, to the payment equally and rateably of an amount equal to the price at which the Preferred Shares of each series were issued and the premium thereon, if any, and, secondly, *pro rata* in the payment of accrued and unpaid cumulative dividends and declared and unpaid non-cumulative dividends.

3.1.6 The holders of the Preferred Shares shall not, as such, be entitled as of right to subscribe for or to purchase or receive the whole or any part of any shares, bonds, debentures or other securities or any rights to acquire the same, which may from time to time be issued by the Corporation except in accordance with any conversion rights set forth in the rights, privileges, restrictions and conditions attaching to the Preferred Shares of any series.

3.1.7 The provisions of paragraphs 3.1.1 to 3.1.6, inclusive, and of this paragraph 3.1.7 may be deleted, varied, modified, amended or amplified in whole or in part by a certificate of amendment, but only with the prior approval of the holders of the Preferred Shares given as hereinafter specified in addition to any other approval required by the Canada Business Corporations Act.

The approval of the holders of the Preferred Shares with respect to any and all matters hereinbefore referred to may be given in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Preferred Shares for the time being outstanding or by resolution duly passed by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at a meeting of the holders of the Preferred Shares duly called and held for the purpose of considering the subject matter of such resolution and at which meeting the holders of not less than a majority of the outstanding Preferred Shares are present in person or represented by proxy in accordance with the by-laws of the Corporation; provided, however, that, if at any such meeting, when originally held, the holders of at least a majority of the outstanding Preferred Shares are not present in person or so represented by proxy within thirty (30) minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than fifteen (15) days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than a majority of all Preferred Shares then outstanding, may transact the business for which the meeting was originally called, and a resolution duly passed and carried thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at such adjourned meeting shall constitute the approval of the holders of the Preferred Shares hereinbefore mentioned. Notice of any such original meeting of the holders of the Preferred Shares shall be given not less than twenty-one (21) nor more than fifty (50) days prior to the date fixed for such meeting and shall state the nature of the business to be transacted and the text of any special resolution to be submitted to the meeting, and, provided that such adjournment is not more than twenty-nine (29) days, notice of any such adjourned meeting shall be given not less than seven (7) days prior to the date fixed for such adjourned meeting, but it shall not be necessary to specify in such notice the purpose for which the adjourned meeting is called. If such adjournment is thirty (30) days or more notice of such adjourned meeting shall be given as required by the Canada Business Corporations Act. The formalities to be observed with respect to the giving of notice of any such original meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders or in the Canada Business Corporations Act.

If the deletion, variation, modification, amendment or amplification of the provisions hereinbefore contained especially affects the rights of the holders of Preferred Shares of any series, in a manner different from that in or to which the rights of the holders of Preferred Shares of any other series are affected, then such deletion, variation, modification, amendment or amplification shall, in addition to being approved by the holders of the Preferred Shares as hereinabove set forth, be approved by the holders of the Preferred Shares of such series so especially affected, which approval may be given in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Preferred Shares of such series or by resolution passed by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at the meeting of the holders of the Preferred Shares of such series, and the provisions of this paragraph 3.1.7 shall apply, *mutatis mutandis*, with respect to the holding of such meeting.

At any meeting of the holders of Preferred Shares, without distinction as to series, each holder of Preferred Shares shall be entitled to one (1) vote in respect of each Preferred Share held by him. At any meeting of the holders of Preferred Shares of any particular series, each holder shall be entitled to one (1) vote in respect of each Preferred Share of such series held by him.

3.2 Series A Preferred Shares

The Series A Preferred Shares shall, in addition and subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class, carry and be subject to the rights, privileges, restrictions and conditions hereinafter set forth:—

3.2.1 *Interpretation.*

3.2.1.1 The following words and phrases wherever used in this clause 3.2 shall, unless there be something in the context inconsistent therewith, have the following meanings:—

“Act” means the Canada Business Corporations Act as from time to time amended or replaced.

“Common Shares” means the Common Shares without nominal or par value of the Corporation.

“Corporation” means Genstar Limited.

“Current Market Price” per Common Share at any date shall be deemed to be the weighted average of the sales prices on The Toronto Stock Exchange for twenty (20) consecutive trading days commencing not earlier than the twenty-fifth (25th) trading day before such date. In the event that there is no reported sale of such shares on any such day on the said Exchange, reference shall be made to the sales prices (if any) on the Montreal Stock Exchange on such day.

“Current Conversion Price” at any time means an amount equal to twenty dollars (\$20) divided by the number of Common Shares into which at such time one (1) Series A Preferred Share shall be convertible.

“Directors” means the Board of Directors of the Corporation for the time being and reference without more to action by the Directors shall mean action by the Directors as a board or any authorized committee thereof.

“Series A Preferred Shares” means the Series A \$1.10 Cumulative Convertible Redeemable Preferred Shares referred to in this clause 3.2.

“Series A Conversion Period” means with respect to any Series A Preferred Share the period commencing on the date of the issue of such share and ending at the close of business on December 31, 1983.

“Series A Conversion Rate” means the conversion rate of the Series A Preferred Shares into Common Shares set out in subclause 3.2.5.1 hereof as the same may be adjusted from time to time as provided in subclause 3.2.5 hereof.

3.2.1.2 Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and vice versa and words importing persons shall include firms, associations and corporations and vice versa.

3.2.2 *Dividends.*

3.2.2.1 The holders of the Series A Preferred Shares shall be entitled to receive, as and when declared by the Directors, fixed cumulative preferential dividends at the rate of one dollar and ten cents

(\$1.10) in cash per annum on each Series A Preferred Share and no more, such dividends to accumulate from the later of (i) January 1, 1974 or (ii) the date of first issue of any of such Series A Preferred Shares and to be payable semi-annually at such times and in such places as may be determined by the Directors.

3.2.2.2 Any dividends declared on the Series A Preferred Shares will (except in case of redemption in which case payment of dividends will be made upon surrender of the certificates representing the Series A Preferred Shares to be redeemed) be paid by forwarding, by post prepaid, addressed to each holder of the Series A Preferred Shares at his address as it appears on the books of the Corporation or, in the case of joint holders, to the address of that one whose name stands first in the books of the Corporation as one of such joint holders, a cheque for such dividends (less any tax required to be deducted) payable to the order of such holder or, in the case of joint holders, to the order of all such holders failing written instructions from them to the contrary.

3.2.2.3 The forwarding of such cheque shall satisfy such dividends to the extent of the sum represented thereby (plus the amount of any tax required to be deducted as aforesaid) unless such cheque be not paid on presentation. Each dividend on the Series A Preferred Shares shall be paid to the registered holders appearing on the registers at the close of business on such day (which shall not be more than thirty (30) days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Directors.

3.2.3 *Purchase and Redemption Provisions.*

3.2.3.1 Subject to the provisions of the Act, the Corporation may at any time or from time to time purchase (if obtainable) the whole or any part of the outstanding Series A Preferred Shares in the open market or by tender, at a price or prices to be determined by the Directors, but not exceeding the amount of capital paid up on such shares, plus the premium, if any, which would have been payable if said shares had been called for redemption by the Corporation on the date of such purchase and, if said shares could not be redeemed on such date, then an additional amount equal to the premium, if any, which would have been payable, at the time of their first becoming redeemable, on the redemption of said shares respectively, plus an amount equal to all unpaid cumulative dividends (which for such purpose shall be calculated as if such dividends were accruing from day to day for the period from the expiration of the last period for which dividends have been paid up to and including the date of purchase), and plus costs of purchase; provided, however, that in the case of purchase of shares by tender the Corporation shall give notice of its intention to invite tenders to all the holders of the Series A Preferred Shares by mailing the same in a prepaid letter which if then applicable shall state full particulars as to conversion rights, addressed to each holder at his address as it appears on the books of the Corporation or, failing any such address, then to the last known address of such shareholder and shall, if two or more tenders of shares at the same price be received, which shares when added to any shares already tendered at a lower price or prices aggregate more than the number of shares to be purchased at such time, the Corporation shall prorate as nearly as may be (disregarding fractions) among the shareholders submitting such tenders at the same price the number of shares necessary to complete the number of shares to be purchased at such time.

3.2.3.2 Subject to the provisions of the Act, the Corporation may, upon not less than thirty (30) days' notice to the holders of the Series A Preferred Shares to be redeemed given in the manner specified in subclause 3.2.3.1 hereof with respect to tenders, redeem at any time after December 31, 1975, the whole or from time to time any part of the then outstanding Series A Preferred Shares during the periods and at the redemption prices per share following, namely:—

<u>Period</u>	<u>Redemption Price</u>
After December 31, 1975 and to and including December 31, 1981	\$22.00
Thereafter and to and including December 31, 1983	\$21.00
Thereafter	\$20.00

plus an amount equal to all unpaid cumulative dividends (which for such purpose shall be calculated as if such dividends were accruing from day to day for the period from the expiration of the last period for which dividends have been paid up to and including the date of such redemption); provided, however, that no redemption may be made during the period from January 1, 1976 to December 31, 1978, inclusive,

unless the Current Market Price per Common Share on the date of the giving of the notice of redemption is not less than one hundred and twenty per cent (120%) of the then Current Conversion Price.

In case the Corporation desires to redeem part only of the Series A Preferred Shares, the shares to be redeemed shall be selected by lot in such manner as the Directors may determine or, if the Directors so determine, may be redeemed *pro rata* disregarding fractions.

The notice of redemption shall set out the redemption price, the Current Market Price per Common Share, the Current Conversion Price, the place at which the redemption price is to be paid, and the date on which redemption is to take place, and, if part only of the shares held by the shareholder is to be redeemed, the number thereof so to be redeemed. On or before the date so specified for redemption, the Corporation shall deposit the redemption price of the shares to be redeemed in a special account in a bank or trust company specified in said notice to be paid without interest to or to the order of the respective holders of such shares upon presentation and surrender to such bank or trust company of the certificates representing the same. Provided such deposit shall have been made, such shares so called for redemption shall on the date specified for redemption be and be deemed to be redeemed and no longer outstanding. If a part only of the shares represented by any certificate be redeemed, a new certificate for the part not redeemed shall be issued at the expense of the Corporation. Provided the redemption price shall have been deposited as aforesaid, the shares so called for redemption shall from and after the date specified for redemption cease to be entitled to dividends, and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof, and their rights shall be limited to receiving, without interest, their proportionate part of the total redemption price so deposited against presentation and surrender of the certificates held by them respectively. If the redemption price shall not be deposited as aforesaid, the rights of the holders of the shares so called for redemption shall remain unaffected.

The Corporation may not redeem the Series A Preferred Shares at any time if any part of the redemption price which constitutes a repayment of paid-up capital would for purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Corporation being less than the paid-up capital in respect of those shares so to be redeemed.

3.2.3.3 Any shares purchased or redeemed by the Corporation under subclauses 3.2.3.1 or 3.2.3.2 hereof shall not be reissued by the Corporation.

3.2.4 *Voting.*

3.2.4.1 Each holder of Series A Preferred Shares shall be entitled to notice of and to attend and vote at any general meetings of shareholders of the Corporation and shall be entitled on a show of hands to one (1) vote and on a poll to one (1) vote for each Series A Preferred Share held by him or which he represents by proxy.

3.2.5 *Conversion Rights.*

3.2.5.1 Each Series A Preferred Share will be convertible, at the option of the holder, at any time during the Series A Conversion Period into Common Shares on the basis of one (1) Common Share for each Series A Preferred Share converted.

3.2.5.2 The conversion rights herein granted may be exercised only by notice in writing given to the transfer agent or secretary of the Corporation accompanied by the certificate or certificates representing the Series A Preferred Shares which the holder thereof desires to have converted, and if any of the Common Shares are to be registered in the name of any person other than such holder, duly endorsed for transfer or accompanied by properly executed stock transfer powers with signatures guaranteed by a bank or trust company and accompanied by funds in the amount of any transfer taxes payable, and such notice shall be signed by the person registered on the books of the Corporation as the holder of such Series A Preferred Shares or by his duly authorized attorney and shall specify the number of Series A Preferred Shares which the holder desires to have converted and the person in whose name the certificates for Common Shares are to be registered. Upon receipt of such notice, the Corporation shall issue certificates representing Common Shares upon the basis hereinbefore prescribed and in accordance with the provisions hereof. If less than all the Series A Preferred Shares represented by any certificate are to be converted, the

holder shall be entitled to receive at the expense of the Corporation a new certificate or certificates for the Series A Preferred Shares representing the Series A Preferred Shares comprised in the original certificate which are not converted. Any transfer taxes exigible with respect to such transaction shall be borne by the holder.

3.2.5.3 All Common Shares issued upon a conversion of Series A Preferred Shares as aforesaid shall be fully paid and non-assessable and the amount which was paid-up on such Series A Preferred Shares so converted shall be credited to the Common Share stated capital account and deducted from the Preferred Share stated capital account.

3.2.5.4 The registered holder of any Series A Preferred Share on the record date for any dividend payable on such share shall be entitled to such dividend notwithstanding that such share shall have been converted into Common Shares after such record date and before the payment date of such dividend, and the registered holder of a Common Share resulting from such conversion shall be entitled to rank equally per Common Share with the registered holders of all other Common Shares of record on any date on or after the date of such conversion.

Subject to the foregoing, upon conversion of any Series A Preferred Shares there shall be no adjustment by the Corporation or by any holder of Series A Preferred Shares on account of any dividends either on the Series A Preferred Shares so converted or on the Common Shares resulting from such conversion.

3.2.5.5 In case the Corporation shall at any time after the date of issue of the Series A Preferred Shares (i) declare a dividend or make a distribution on its Common Shares in Common Shares, (ii) change its outstanding Common Shares into a greater number of shares, or (iii) change its outstanding Common Shares into a smaller number of shares, or (iv) issue any shares of its capital stock by changing the designation of its outstanding Common Shares (including any such change of designation in connection with a consolidation or merger in which the Corporation is the continuing corporation), the holder of any Series A Preferred Shares surrendered for conversion after the record date for such dividend or distribution or the effective date of such change shall be entitled to receive the aggregate number and kind of shares which, if such share had been converted at the Series A Conversion Rate in effect immediately prior to such time, he would have owned upon such conversion and been entitled to receive by virtue of such dividend, distribution or change; and the Series A Conversion Rate shall be deemed to have been adjusted after such record date or effective date to apply to such aggregate number and kind of shares. Such adjustment shall be made successively whenever any event listed above shall occur.

3.2.5.6 In case the Corporation shall issue rights or warrants to all holders of any class or classes of its shares entitling them to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion price per share) less than the Current Market Price per Common Share on the record date for such issue, the number of Common Shares into which each Series A Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series A Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are convertible) and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares so to be offered (or the aggregate conversion price of the convertible securities so to be offered) would purchase at such Current Market Price per Common Share. Common Shares owned by or held for the account of the Corporation or any Subsidiary shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such rights or warrants are not so issued or such rights or warrants are not exercised prior to the expiration thereof, the Series A Conversion Rate shall be readjusted to the Series A Conversion Rate which would then be in effect if such record date has not been fixed, or to the Series A Conversion Rate which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually delivered upon the exercise of such rights or warrants, as the case may be.

3.2.5.7 In case the Corporation shall distribute to all holders of its Common Shares (i) shares of any class not included in the definition of Common Shares or (ii) evidences of its indebtedness or (iii) assets (excluding dividends paid in, or distributions of, cash and dividends or distributions referred to in

subclause 3.2.5.5 above), then in each such case the number of Common Shares into which each Series A Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series A Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the Current Market Price per Common Share on the record date for such distribution, and the denominator shall be such Current Market Price per Common Share less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of said shares or assets or evidences of indebtedness so to be distributed applicable to one Common Share. Such adjustment shall be made successively whenever such a record date is fixed; and to the extent that such distribution is not so made, the Series A Conversion Rate shall be readjusted to the Series A Conversion Rate which would then be in effect if such record date had not been fixed.

3.2.5.8 Notwithstanding anything herein contained, the Corporation shall in no case be required to issue fractional Common Shares upon the conversion of any Series A Preferred Shares. If any fractional interest in a Common Share would, except for the provisions of this subclause 3.2.5.8, be deliverable upon the conversion of any Preferred Share, the Corporation shall, at its option, adjust such fractional interest by either (a) paying to the holder of such surrendered Series A Preferred Share an amount in cash equal (to the nearest cent) to the appropriate fraction of the value (being the mean between the closing bid and asked quotations for the Common Shares on The Toronto Stock Exchange) of a Common Share on the business day next preceding the date of conversion or (b) issuing or causing to be issued to the holder of such surrendered Series A Preferred Share a non-voting and non-dividend bearing scrip certificate or certificates transferable by delivery entitling the holder thereof and of other similar certificates aggregating one full Common Share, upon surrender of such certificates for consolidation at such place in Canada as may be designated therein, to obtain from the Corporation a full share and to receive a share certificate therefor, as well as a further scrip certificate representing the excess, if any, over one full share of the scrip certificates surrendered for consolidation. Such scrip certificates shall be in such form and shall be subject to such terms and conditions as the Corporation may determine and shall provide that after the expiration of one year from their date of issuance, the Corporation may sell or cause to be sold all the Common Shares then represented by unsurrendered fractional certificates and the sole rights of the holders of the fractional certificates after the expiration of said period shall be, against surrender of their fractional certificates, to receive payment of their proportionate amount of the net proceeds of such sale, together with their proportionate amount of any dividends theretofore paid on such Common Shares, less taxes and costs of sale. Such fractional certificates shall not confer on the holders thereof any rights as a shareholder.

3.2.5.9 In any case in which this subclause 3.2.5 shall require that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event (i) issuing to the holder of any Series A Preferred Share converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event over and above the Common Shares issuable upon such conversion before giving effect to such adjustment and (ii) paying to such holder cash or delivery to such holder a scrip certificate or certificates in lieu of any fractional interest to which he is entitled pursuant to subclause 3.2.5.8; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's rights to receive such additional Common Shares and such cash, upon the occurrence of the event requiring such adjustment.

3.2.5.10 No adjustment in the Series A Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1/100 of a share; provided, however, that any adjustments which by reason of this subclause 3.2.5.10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subclause 3.2.5 shall be made to the nearest cent or the nearest 1/100 of a share, as the case may be.

3.2.5.11 In case of any capital reorganization of the Corporation, or in case of the consolidation or merger of the Corporation with or into another corporation, or in case of the sale, transfer or other disposition of all or substantially all of the property, assets or business of the Corporation as a result of which sale, transfer or other disposition, property other than cash shall be payable or distributable to the holders of Common Shares, each Series A Preferred Share shall thereafter be convertible into the number and class of shares or other securities or property of the Corporation, or of the corporation resulting from such

consolidation or merger or to which such sale, transfer or other disposition shall have been made, to which the Common Shares otherwise issuable upon conversion of such Series A Preferred Share would have been entitled upon such reorganization, consolidation, merger, or sale, transfer or other disposition if outstanding at the time thereof; and in any such case appropriate adjustment, as determined by the Directors, shall be made in the application of the provisions set forth in this subclause 3.2.5, with respect to the conversion rights thereafter of the holders of the Series A Preferred Shares, to the end that such provisions shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares or securities or other property thereafter issuable or deliverable upon the conversion of Series A Preferred Shares. Proper provision shall be made as a part of the terms of any such consolidation, merger or sale, transfer or other disposition whereby the conversion rights of the holders of Series A Preferred Shares shall be protected and preserved in accordance with the provisions of this subclause 3.2.5.11. The provisions of this subclause 3.2.5.11 shall similarly apply to successive capital reorganizations, consolidations, mergers, sales, transfers or other dispositions of property as aforesaid.

3.2.5.12 Whenever the Series A Conversion Rate shall be adjusted as provided in this subclause 3.2.5, the Corporation, as soon as practicable and in no event later than ten (10) full business days thereafter, shall file with the Transfer Agent (if any) for the Series A Preferred Shares a statement, signed by the President, any Vice-President or the Treasurer of the Corporation, and confirmed by the Corporation's auditors, stating the adjusted Series A Conversion Rate and setting forth in reasonable detail the facts requiring such adjustment, and shall promptly mail a copy of such statement to each holder of Series A Preferred Shares and publish a copy of such statement (all in the manner specified in subclause 3.2.3.1 with respect to tenders). Such Transfer Agent (if any) shall be fully protected in relying on such statement and shall be under no duty to examine into the truth or accuracy thereof. If any question shall at any time arise with respect to the adjusted Series A Conversion Rate, such question shall be determined by the auditors of the Corporation, and such determination shall be binding upon the Corporation and the holders of such shares.

3.2.5.13 The Corporation shall not pay any stock dividend upon its Common Shares or make any distribution (other than cash dividends) to the holders of its Common Shares, or issue rights to the holders of its Common Shares to subscribe for securities of any class of the Corporation, unless the Corporation shall have given notice of its intention so to do (in the manner specified in subclause 3.2.3.1 hereof with respect to tenders) to the holders of the Series A Preferred Shares then outstanding not less than fourteen (14) days prior to the date fixed or to be fixed by the Corporation as the record date for the determination of the holders of the Common Shares entitled to receive such stock dividend, distribution or rights. Such notice shall set forth the record date fixed or to be fixed as aforesaid and such particulars, if any, of such stock dividend, distribution or rights as shall have been fixed and determined at the date on which such notice is given. The accidental failure to give the notice required by this subclause 3.2.5.13 or any defect therein shall not affect the legality or validity of any payment, distribution or issue.

3.2.5.14 The Corporation shall reserve and set aside a sufficient number of Common Shares to enable all of the Series A Preferred Shares to be converted upon the basis and upon the terms and conditions herein provided.

3.2.5.15 The right to convert any Series A Preferred Share called for redemption pursuant to the provisions hereof shall terminate and expire at the close of business on the day immediately prior to the date fixed for redemption, unless the Corporation shall make default in the payment of the redemption price of such Series A Preferred Share.

3.2.6 *Amendments.*

3.2.6.1 The provisions contained in this clause 3.2 and in the various subclauses thereof may be amended, deleted or amplified in whole or in part with the approval of the holders of the Series A Preferred Shares given in the manner hereinafter provided, in addition to any other approval required by the Act.

The approval of the holders of the Series A Preferred Shares with respect to any and all matters hereinbefore referred to may be given (i) in writing by the holders of not less than two thirds ($\frac{2}{3}$) of the Series A Preferred Shares for the time being outstanding, or (ii) by resolution passed by not less than two thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the Series A Preferred Shares called for the

purpose and the provisions of the second and fourth paragraphs of paragraph 3.1.7 of the rights, privileges, restrictions and conditions attaching to the Preferred Shares, as a class, shall apply, *mutatis mutandis*, with respect to the calling and holding of such meeting.

3.3 Series B Preferred Shares

The Series B Preferred Shares shall, in addition and subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class, carry and be subject to the rights, privileges, restrictions and conditions hereinafter set forth:—

3.3.1 Interpretation.

3.3.1.1 The following words and phrases wherever used in this clause 3.3 shall, unless there be something in the context inconsistent therewith, have the following meanings:—

“Act”, “Common Shares”, “Corporation”, “Current Market Price” and “Directors”, shall have the meanings attached to them in subclause 3.2.1.1 above.

“Current Conversion Price” at any time means an amount equal to twenty dollars (\$20) divided by the number of Common Shares into which at such time one (1) Series B Share shall be convertible.

“Series B Preferred Shares” means the Series B \$1.20 Non-cumulative Convertible Redeemable Preferred Shares referred to in this clause 3.3.

“Series B Conversion Period” means with respect to any Series B Preferred Share the period commencing on the date of the issue of such share and ending at the close of business on December 31, 1983.

“Series B Conversion Rate” means the conversion rate of the Series B Preferred Shares into Common Shares set out in subclause 3.3.5.1 hereof as the same may be adjusted from time to time as provided in subclause 3.3.5 hereof.

3.3.1.2 Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and vice versa and words importing persons shall include firms, associations and corporations and vice versa.

3.3.2 Dividends.

3.3.2.1 The holders of the Series B Preferred Shares shall be entitled to receive, as and when declared by the Directors, non-cumulative preferential dividends at the rate of one dollar and twenty cents (\$1.20) in cash per annum on each Series B Preferred Share and no more, commencing from January 1, 1974, payable semi-annually at such times and in such places as may be determined by the Directors.

3.3.2.2 Any dividends declared on the Series B Preferred Shares will (except in case of redemption in which case payment of dividends will be made upon surrender of the certificates or bearer share warrants (with all pertinent coupons) representing the Series B Preferred Shares to be redeemed) be (i) in the case of shares represented by share certificates, paid by forwarding, by post prepaid, addressed to each holder of the Series B Preferred Shares at his address as it appears on the books of the Corporation or, in the case of joint holders, to the address of that one whose name stands first in the books of the Corporation as one of such joint holders, a cheque for such dividends (less any tax required to be deducted) payable to the order of such holder or, in the case of joint holders, to the order of all such holders failing written instructions from them to the contrary and (ii) in the case of shares represented by bearer share warrants, paid against delivery of the appropriate coupon at the specified place or places (less any tax required to be deducted).

3.3.2.3 The forwarding of such cheque shall satisfy such dividends to the extent of the sum represented thereby (plus the amount of any tax required to be deducted as aforesaid) unless such cheque be not paid on presentation. Each dividend on the Series B Preferred Shares shall be paid to the registered holders appearing on the registers at the close of business on such day (which shall not be more than thirty (30) days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Directors. In the case of shares represented by bearer share warrants, the bearers for the

time being of such warrants shall for purposes of the foregoing be deemed to be the registered holders of the shares represented thereby but subject to any provisions of such warrants relating to the payment of dividends by means of coupons.

3.3.3 *Purchase and Redemption Provisions.*

3.3.3.1 Subject to the provisions of the Act, the Corporation may at any time or from time to time purchase (if obtainable) the whole or part of the outstanding Series B Preferred Shares in the open market or by tender, at a price or prices to be determined by the Directors, but not exceeding the amount of capital paid up on such shares, plus the premium, if any, which would have been payable if said shares had been called for redemption by the Corporation on the date of such purchase and, if said shares could not be redeemed on such date, then an additional amount equal to the premium, if any, which would have been payable, at the time of their first becoming redeemable, on the redemption of said shares respectively, plus an amount equal to all declared but unpaid dividends plus costs of purchase; provided, however, that in the case of purchase of shares by tender the Corporation shall give notice of its intention to invite tenders to all the holders of the Series B Preferred Shares (i) by mailing the same in a prepaid letter which if then applicable shall state full particulars as to conversion rights, addressed to each holder at his address as it appears on the books of the Corporation or, failing any such address, then to the last known address of such shareholder and (ii) if there are any shares then represented by outstanding bearer share warrants, by publishing the same in the manner required for notices of meetings as provided in the bearer share warrants, and shall, if two or more tenders of shares at the same price be received, which shares when added to any shares already tendered at a lower price or prices aggregate more than the number of shares to be purchased at such time, the Corporation shall prorate as nearly as may be (disregarding fractions) among the shareholders submitting such tenders at the same price the number of shares necessary to complete the number of shares to be purchased at such time.

3.3.3.2 Subject to the provisions of the Act, the Corporation may, upon not less than thirty (30) days' notice to the holders of the Series B Preferred Shares to be redeemed given in the manner specified in subclause 3.3.3.1 hereof with respect to tenders, redeem at any time after December 31, 1975, the whole or from time to time any part of the then outstanding Series B Preferred Shares during the periods and at the redemption prices per share following, namely:—

<u>Period</u>	<u>Redemption Price</u>
After December 31, 1975 and to and including December 31, 1981 ...	\$22.00
Thereafter and to and including December 31, 1983	\$21.00
Thereafter	\$20.00

plus an amount equal to the non-cumulative dividend for the current fiscal year and all declared and unpaid non-cumulative dividends; provided, however, that no redemption may be made during the period from January 1, 1976 to December 31, 1978, inclusive, unless the Current Market Price per Common Share on the date of the giving of the notice of redemption is not less than one hundred and twenty per cent (120%) of the then Current Conversion Price.

In case the Corporation desires to redeem part only of the Series B Preferred Shares, the shares to be redeemed shall be selected by lot in such manner as the Directors may determine or, if the Directors so determine, may be redeemed *pro rata* disregarding fractions.

The notice of redemption shall set out the redemption price, the Current Market Price per Common Share, the Current Conversion Price, the place at which the redemption price is to be paid, and the date on which redemption is to take place, and, if part only of the shares held by the shareholder is to be redeemed, the number thereof so to be redeemed. On or before the date so specified for redemption, the Corporation shall deposit the redemption price of the shares to be redeemed in a special account in a bank or trust company specified in said notice to be paid without interest to or to the order of the respective holders of such shares upon presentation and surrender to such bank or trust company of the certificates or bearer share warrants representing the same. Provided such deposit shall have been made, such shares so called for redemption shall on the date specified for redemption be and be deemed to be redeemed and no longer outstanding. If a part only of the shares represented by any certificate or bearer share warrant be

redeemed, a new certificate or bearer share warrant for the part not redeemed shall be issued at the expense of the Corporation. Provided the redemption price shall have been deposited as aforesaid, the shares so called for redemption shall from and after the date specified for redemption cease to be entitled to dividends, and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof, and their rights shall be limited to receiving, without interest, their proportionate part of the total redemption price so deposited against presentation and surrender of the certificates and/or bearer share warrants held by them respectively. If the redemption price shall not be deposited as aforesaid, the rights of the holders of the shares so called for redemption shall remain unaffected.

The Corporation may not redeem the Series B Preferred Shares at any time if any part of the redemption price which constitutes a repayment of paid-up capital would for purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Corporation being less than the paid-up capital in respect of those shares so to be redeemed.

3.3.3.3 Any shares purchased or redeemed by the Corporation under subclauses 3.3.3.1 or 3.3.3.2 hereof shall not be reissued by the Corporation.

3.3.4 *Voting.*

3.3.4.1 Each holder of Series B Preferred Shares shall be entitled to notice of and to attend and vote at any general meetings of shareholders of the Corporation and shall be entitled on a show of hands to one (1) vote and on a poll to one (1) vote for each Series B Preferred Share held by him or which he represents by proxy.

3.3.5 *Conversion Rights.*

3.3.5.1 Each Series B Preferred Share will be convertible, at the option of the holder, at any time during the Series B Conversion Period into Common Shares on the basis of one (1) Common Share for each Series B Preferred Share converted.

3.3.5.2 The conversion rights herein granted may be exercised only by notice in writing given to the transfer agent or secretary of the Corporation accompanied by the certificate or certificates or bearer share warrants (with all those coupons appertaining thereto which have not been identified by the Corporation as representing a right to dividends or otherwise) representing the Series B Preferred Shares which the holder thereof desires to have converted, and, if any of the Common Shares are to be registered in the name of any person other than such holder, duly endorsed for transfer or accompanied by properly executed stock transfer powers with signatures guaranteed by a bank or trust company and accompanied by funds in the amount of any transfer taxes payable, and such notice shall be signed by the person registered on the books of the Corporation as the holder of such Series B Preferred Shares or by his duly authorized attorney or in the case of bearer share warrants by the person delivering such bearer share warrants for conversion, and shall specify the number of Series B Preferred Shares which the holder desires to have converted and the person in whose name the certificates for Common Shares are to be registered. Upon receipt of such notice, the Corporation shall issue certificates representing Common Shares upon the basis hereinbefore prescribed and in accordance with the provisions hereof. If less than all the Series B Preferred Shares represented by any certificate or bearer share warrant are to be converted, the holder shall be entitled to receive at the expense of the Corporation a new certificate or certificates or bearer share warrants for the Series B Preferred Shares representing the Series B Preferred Shares comprised in the original certificate or bearer share warrant which are not converted. Any transfer taxes exigible with respect to such transaction shall be borne by the holder.

3.3.5.3 All Common Shares issued upon a conversion of Series B Preferred Shares as aforesaid shall be fully paid and non-assessable and the amount which was paid up on such Series B Preferred Shares so converted shall be credited to the Common Share stated capital account and deducted from the Preferred Share stated capital account.

3.3.5.4 The registered holder of any Series B Preferred Share and the holder for the time being of a bearer share warrant for a Series B Preferred Share on the record date for any dividend payable on such share shall be entitled to such dividend notwithstanding that such share shall have been converted into Common Shares after such record date and before the payment date of such dividend, and the registered

holder of a Common Share resulting from such conversion shall be entitled to rank equally per Common Share with the holders of all other Common Shares of record on any date on or after the date of such conversion.

Subject to the foregoing, upon conversion of any Series B Preferred Shares there shall be no adjustment by the Corporation or by any holder of Series B Preferred Shares on account of any dividends either on the Series B Preferred Shares so converted or on the Common Shares resulting from such conversion.

3.3.5.5 In case the Corporation shall at any time after the date of issue of the Series B Preferred Shares (i) declare a dividend or make a distribution on its Common Shares in Common Shares, (ii) change its outstanding Common Shares into a greater number of shares, or (iii) change its outstanding Common Shares into a smaller number of shares, or (iv) issue any shares of its capital stock by changing the designation of its outstanding Common Shares (including any such change of designation in connection with a consolidation or merger in which the Corporation is the continuing corporation), the holder of any Series B Preferred Share surrendered for conversion after the record date for such dividend or distribution or the effective date of such change shall be entitled to receive the aggregate number and kind of shares which, if such share had been converted at the Series B Conversion Rate in effect immediately prior to such time, he would have owned upon such conversion and been entitled to receive by virtue of such dividend, distribution or change; and the Series B Conversion Rate shall be deemed to have been adjusted after such record date or effective date to apply to such aggregate number and kind of shares. Such adjustment shall be made successively whenever any event listed above shall occur.

3.3.5.6 In case the Corporation shall issue rights or warrants to all holders of any class or classes of its shares entitling them to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion price per share) less than the Current Market Price per Common Share on the record date for such issue, the number of Common Shares into which each Series B Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series B Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are convertible) and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares so to be offered (or the aggregate conversion price of the convertible securities so to be offered) would purchase at such Current Market Price per Common Share. Common Shares owned by or held for the account of the Corporation or any Subsidiary shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such rights or warrants are not so issued or such rights or warrants are not exercised prior to the expiration thereof, the Series B Conversion Rate shall be readjusted to the Series B Conversion Rate which would then be in effect if such record date had not been fixed, or to the Series B Conversion Rate which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually delivered upon the exercise of such rights or warrants, as the case may be.

3.3.5.7 In case the Corporation shall distribute to all holders of its Common Shares (i) shares of any class not included in the definition of Common Shares or (ii) evidences of its indebtedness or (iii) assets (excluding dividends paid in, or distributions of, cash and dividends or distributions referred to in subclause 3.3.5.5 above), then in each such case the number of Common Shares into which each Series B Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series B Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the Current Market Price per Common Share on the record date for such distribution, and the denominator shall be such Current Market Price per Common Share less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of said shares or assets or evidences of indebtedness so to be distributed applicable to one Common Share. Such adjustment shall be made successively whenever such a record date is fixed; and to the extent that such distribution is not so made, the Series B Conversion Rate shall be readjusted to the Series B Conversion Rate which would then be in effect if such record date had not been fixed.

3.3.5.8 Notwithstanding anything herein contained, the Corporation shall in no case be required to issue fractional Common Shares upon the conversion of any Series B Preferred Share. If any fractional interest in a Common Share would, except for the provisions of this subclause 3.3.5.8, be deliverable upon the conversion of any Preferred Share, the Corporation shall, at its option, adjust such fractional interest by either (a) paying to the holder of such surrendered Series B Preferred Share an amount in cash equal (to the nearest cent) to the appropriate fraction of the value (being the mean between the closing bid and asked quotations for the Common Shares on The Toronto Stock Exchange) of a Common Share on the business day next preceding the date of conversion or (b) issuing or causing to be issued to the holder of such surrendered Series B Preferred Share a non-voting and non-dividend bearing scrip certificate or certificates transferable by delivery entitling the holder thereof and of other similar certificates aggregating one full Common Share, upon surrender of such certificates for consolidation at such place in Canada as may be designated therein, to obtain from the Corporation a full share and to receive a share certificate therefor, as well as a further scrip certificate representing the excess, if any, over one full share of the scrip certificates surrendered for consolidation. Such scrip certificates shall be in such form and shall be subject to such terms and conditions as the Corporation may determine and shall provide that after the expiration of one year from their date of issuance, the Corporation may sell or cause to be sold all the Common Shares then represented by unsurrendered fractional certificates and the sole rights of the holders of the fractional certificates after the expiration of said period shall be, against surrender of their fractional certificates, to receive payment of their proportionate amount of the net proceeds of such sale, together with their proportionate amount of any dividends theretofore paid on such Common Shares, less taxes and costs of sale. Such fractional certificates shall not confer on the holders thereof any rights as a shareholder.

3.3.5.9 In any case in which this subclause 3.3.5 shall require that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event (i) issuing to the holder of any Series B Preferred Share converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event over and above the Common Shares issuable upon such conversion before giving effect to such adjustment and (ii) paying to such holder cash or delivering to such holder a scrip certificate or certificates in lieu of any fractional interest to which he is entitled pursuant to subclause 3.3.5.8; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's rights to receive such additional Common Shares and such cash, upon the occurrence of the event requiring such adjustment.

3.3.5.10 No adjustment in the Series B Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1/100 of a share; provided, however, that any adjustments which by reason of this subclause 3.3.5.10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subclause 3.3.5 shall be made to the nearest cent or the nearest 1/100 of a share, as the case may be.

3.3.5.11 In case of any capital reorganization of the Corporation, or in case of the consolidation or merger of the Corporation with or into another corporation, or in case of the sale, transfer or other disposition of all or substantially all of the property, assets or business of the Corporation as a result of which sale, transfer or other disposition, property other than cash shall be payable or distributable to the holders of Common Shares, each Series B Preferred Share shall thereafter be convertible into the number and class of shares or other securities or property of the Corporation, or of the corporation resulting from such consolidation or merger or to which such sale, transfer or other disposition shall have been made, to which the Common Shares otherwise issuable upon conversion of such Series B Preferred Share would have been entitled upon such reorganization, consolidation, merger, or sale, transfer or other disposition if outstanding at the time thereof; and in any such case appropriate adjustment, as determined by the Directors, shall be made in the application of the provisions set forth in this subclause 3.3.5, with respect to the conversion rights thereafter of the holders of the Series B Preferred Shares, to the end that such provisions shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares or securities or other property thereafter issuable or deliverable upon the conversion of Series B Preferred Shares. Proper provision shall be made as a part of the terms of any such consolidation, merger or sale, transfer or other disposition whereby the conversion rights of the holders of Series B Preferred Shares shall be protected

and preserved in accordance with the provisions of this subclause 3.3.5.11. The provisions of this subclause 3.3.5.11 shall similarly apply to successive capital reorganizations, consolidations, mergers, sales, transfers or other dispositions of property as aforesaid.

3.3.5.12 Whenever the Series B Conversion Rate shall be adjusted as provided in this subclause 3.3.5, the Corporation, as soon as practicable and in no event later than ten (10) full business days thereafter, shall file with the Transfer Agent (if any) for the Series B Preferred Shares a statement, signed by the President, any Vice-President or the Treasurer of the Corporation and confirmed by the Corporation's auditors, stating the adjusted Series B Conversion Rate and setting forth in reasonable detail the facts requiring such adjustment, and shall promptly mail a copy of such statement to each holder of Series B Preferred Shares and publish a copy of such statement (all in the manner specified in subclause 3.3.3.1 with respect to tenders). Such Transfer Agent (if any) shall be fully protected in relying on such statement and shall be under no duty to examine into the truth or accuracy thereof. If any question shall at any time arise with respect to the adjusted Series B Conversion Rate, such question shall be determined by the auditors of the Corporation, and such determination shall be binding upon the Corporation and the holders of such shares.

3.3.5.13 The Corporation shall not pay any stock dividend upon its Common Shares or make any distribution (other than cash dividends) to the holders of its Common Shares, or issue rights to the holders of its Common Shares to subscribe for securities of any class of the Corporation, unless the Corporation shall have given notice of its intention so to do (in the manner specified in subclause 3.3.3.1 hereof with respect to tenders) to the holders of the Series B Preferred Shares then outstanding not less than fourteen (14) days prior to the date fixed or to be fixed by the Corporation as the record date for the determination of the holders of the Common Shares entitled to receive such stock dividend, distribution or rights. Such notice shall set forth the record date fixed or to be fixed as aforesaid and such particulars, if any, of such stock dividend, distribution or rights as shall have been fixed and determined at the date on which such notice is given. The accidental failure to give the notice required by this subclause 3.3.5.13 or any defect therein shall not affect the legality or validity of any payment, distribution or issue.

3.3.5.14 The Corporation shall reserve and set aside a sufficient number of Common Shares to enable all of the Series B Preferred Shares to be converted upon the basis and upon the terms and conditions herein provided.

3.3.5.15 The right to convert any Series B Preferred Share called for redemption pursuant to the provisions hereof shall terminate and expire at the close of business on the day immediately prior to the date fixed for redemption, unless the Corporation shall make default in the payment of the redemption price of such Series B Preferred Share.

3.3.6 *Amendments.*

3.3.6.1 The provisions contained in this clause 3.3 and in the various subclauses thereof may be amended, deleted or amplified in whole or in part with the approval of the holders of the Series B Preferred Shares given in the manner hereinafter provided, in addition to any other approval required by the Act.

The approval of the holders of the Series B Preferred Shares with respect to any and all matters hereinbefore referred to may be given (i) in writing by the holders of not less than two thirds (2/3) of the Series B Preferred Shares for the time being outstanding, or (ii) by resolution passed by not less than two thirds (2/3) of the votes cast at a meeting of the holders of the Series B Preferred Shares called for the purpose and the provisions of the second and fourth paragraphs of paragraph 3.1.7 of the rights, privileges, restrictions and conditions attaching to the Preferred Shares, as a class, shall apply, *mutatis mutandis*, with respect to the calling and holding of such meeting.

3.4 **Series C Preferred Shares**

The Series C Preferred Shares shall, in addition and subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class, carry and be subject to the rights, privileges, restrictions and conditions hereinafter set forth: —

3.4.1 *Interpretation.*

3.4.1.1 The following words and phrases wherever used in this clause 3.4 shall, unless there be something in the context inconsistent therewith, have the following meanings: —

“Act”, “Common Shares”, “Corporation”, “Current Market Price” and “Directors” shall have the meanings attached to them in subclause 3.2.1.1 above.

“Current Conversion Price” at any time means an amount equal to twenty dollars (\$20) divided by the number of Common Shares into which at such time one (1) Series B Preferred Share would be convertible assuming that at that time at least one (1) Series B Preferred Share was outstanding.

“Series B Preferred Shares” means the Series B \$1.20 Non-cumulative Convertible Redeemable Preferred Shares referred to in clause 3.3 above.

“Series C Preferred Shares” means the Series C Convertible Redeemable Preferred Shares referred to in this clause 3.4.

“Series C Conversion Period” means with respect to any Series C Preferred Share the period commencing on the date upon which notice of redemption by the Corporation of such share is given and ending at the close of business on the day immediately prior to the date fixed for such redemption.

“Series C Conversion Rate” means the conversion rate of the Series C Preferred Shares into Common Shares set out in subclause 3.4.5.1 hereof as the same may be adjusted from time to time as provided in subclause 3.4.5 hereof.

3.4.1.2 Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and vice versa and words importing persons shall include firms, associations and corporations and vice versa.

3.4.2 *Dividends.*

3.4.2.1 The holders of the Series C Preferred Shares shall be entitled to the same dividends per Series C Preferred Share as are payable on each of the Series B Preferred Shares provided, however, that the right to such dividends shall be deferred until January 1, 1979 from which date such dividends shall commence in the event that for any reason the automatic conversion into Series B Preferred Shares stipulated in subclause 3.4.6 hereof does not take place. For greater certainty it is hereby declared that, in the event that such automatic conversion takes place, no dividends shall be payable or be deemed to have become payable on the Series C Preferred Shares.

3.4.3 *Purchase and Redemption Provisions.*

3.4.3.1 Subject to the provisions of the Act, the Corporation may at any time or from time to time purchase (if obtainable) the whole or any part of the outstanding Series C Preferred Shares in the open market or by tender, at a price or prices to be determined by the Directors, but not exceeding the amount of capital paid up on such shares, plus the premium, if any, which would have been payable if said shares had been called for redemption by the Corporation on the date of such purchase and, if said shares could not be redeemed on such date, then an additional amount equal to the premium, if any, which would have been payable, at the time of their first becoming redeemable, on the redemption of said shares respectively, plus costs of purchase; provided, however, that in the case of purchase of shares by tender the Corporation shall give notice of its intention to invite tenders to all the holders of the Series C Preferred Shares by mailing the same in a prepaid letter, addressed to each holder at his address as it appears on the books of the Corporation or, failing any such address, then to the last known address of such shareholder and shall, if two or more tenders of shares at the same price be received, which shares when added to any shares already tendered at a lower price or prices aggregate more than the number of shares to be purchased at such time, the Corporation shall prorate as nearly as may be (disregarding fractions) among the shareholders submitting such tenders at the same price the number of shares necessary to complete the number of shares to be purchased at such time.

3.4.3.2 Subject to the provisions of the Act, the Corporation may, upon not less than thirty (30) days' notice to the holders of the Series C Preferred Shares to be redeemed given in the manner specified

in subclause 3.4.3.1 hereof with respect to tenders, redeem at any time after December 31, 1975 the whole or from time to time any part of the then outstanding Series C Preferred Shares at a redemption price of twenty-two dollars (\$22) per share; provided, however, that no redemption may be made unless the Current Market Price per Common Share on the date of the giving of the notice of redemption is not less than one hundred and twenty per cent (120%) of the then Current Conversion Price.

In case the Corporation desires to redeem part only of the Series C Preferred Shares, the shares to be redeemed shall be selected by lot in such manner as the Directors may determine or, if the Directors so determine, may be redeemed *pro rata* disregarding fractions.

The notice of redemption shall set out the redemption price, the Current Market Price per Common Share, the Current Conversion Price, the place at which the redemption price is to be paid, and the date on which redemption is to take place, and, if part only of the shares held by the shareholder is to be redeemed, the number thereof so to be redeemed. On or before the date so specified for redemption, the Corporation shall deposit the redemption price of the shares to be redeemed in a special account in a bank or trust company specified in said notice to be paid without interest to or to the order of the respective holders of such shares upon presentation and surrender to such bank or trust company of the certificates representing the same. Provided such deposit shall have been made, such shares so called for redemption shall on the date specified for redemption be and be deemed to be redeemed and no longer outstanding. If a part only of the shares represented by any certificate be redeemed, a new certificate for the part not redeemed shall be issued at the expense of the Corporation. Provided the redemption price shall have been deposited as aforesaid, the shares so called for redemption shall from and after the date specified for redemption cease to be entitled to dividends, and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof, and their rights shall be limited to receiving, without interest, their proportionate part of the total redemption price so deposited against presentation and surrender of the certificates held by them respectively. If the redemption price shall not be deposited as aforesaid, the rights of the holders of the shares so called for redemption shall remain unaffected.

The Corporation may not redeem the Series C Preferred Shares at any time if any part of the redemption price which constitutes a repayment of paid-up capital would for purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Corporation being less than the paid-up capital in respect of those shares so to be redeemed.

3.4.3.3 Any shares purchased or redeemed by the Corporation under subclauses 3.4.3.1 or 3.4.3.2 hereof shall not be reissued by the Corporation.

3.4.4 *Voting.*

3.4.4.1 Each holder of Series C Preferred Shares shall be entitled to notice of and to attend and vote at any general meetings of shareholders of the Corporation and shall be entitled on a show of hands to one (1) vote and on a poll to one (1) vote for each Series C Preferred Share held by him or which he represents by proxy.

3.4.5 *Conversion Rights.*

3.4.5.1 Each Series C Preferred Share will be convertible, at the option of the holder, at any time during the Series C Conversion Period into Common Shares on the basis of one (1) Common Share for each Series C Preferred Share converted, but only if such Series C Preferred Share shall have been called for redemption by the Corporation in accordance with subclause 3.4.3.2.

3.4.5.2 The conversion rights herein granted may be exercised only by notice in writing given to the transfer agent or secretary of the Corporation accompanied by the certificate or certificates representing the Series C Preferred Shares which the holder thereof desires to have converted and, if any of the Common Shares are to be registered in the name of any person other than such holder, duly endorsed for transfer or accompanied by properly executed stock transfer powers with signatures guaranteed by a bank or trust company and accompanied by funds in the amount of any transfer taxes payable, and such notice shall be signed by the person registered on the books of the Corporation as the holder of such Series C Preferred Shares or by his duly authorized attorney and shall specify the number of Series C Preferred Shares which the holder desires to have converted and the person in whose name the certificates for

Common Shares are to be registered. Upon receipt of such notice, the Corporation shall issue certificates representing Common Shares upon the basis hereinbefore prescribed and in accordance with the provisions hereof. If less than all the Series C Preferred Shares represented by any certificate are to be converted, the holder shall be entitled to receive at the expense of the Corporation a new certificate or certificates for the Series C Preferred Shares representing the Series C Preferred Shares comprised in the original certificate which are not converted. Any transfer taxes exigible with respect to such transaction shall be borne by the holder.

3.4.5.3 All Common Shares issued upon a conversion of Series C Preferred Shares as aforesaid shall be fully paid and non-assessable and the amount which was paid up on such Series C Preferred Shares so converted shall be credited to the Common Share stated capital account and deducted from the Preferred Share stated capital account.

3.4.5.4 The registered holder of a Common Share resulting from conversion of a Series C Preferred Share shall be entitled to rank equally per Common Share with the holders of all other Common Shares of record on any date on or after the date of such conversion.

3.4.5.5 In case the Corporation shall at any time after the date of issue of the Series C Preferred Shares (i) declare a dividend or make a distribution on its Common Shares in Common Shares, (ii) change its outstanding Common Shares into a greater number of shares, or (iii) change its outstanding Common Shares into a smaller number of shares, or (iv) issue any shares of its capital stock by changing the designation of its outstanding Common Shares (including any such change of designation in connection with a consolidation or merger in which the Corporation is the continuing corporation), the holder of any Series C Preferred Share surrendered for conversion after the record date for such dividend or distribution or the effective date of such change, shall be entitled to receive the aggregate number and kind of shares which, if such share had been converted at the Series C Conversion Rate in effect immediately prior to such time, he would have owned upon such conversion and been entitled to receive by virtue of such dividend, distribution or change; and the Series C Conversion Rate shall be deemed to have been adjusted after such record date or effective date to apply to such aggregate number and kind of shares. Such adjustment shall be made successively whenever any event listed above shall occur.

3.4.5.6 In case the Corporation shall issue rights or warrants to all holders of any class or classes of its shares entitling them to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion price per share) less than the Current Market Price per Common Share on the record date for such issue, the number of Common Shares into which each Series C Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series C Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are convertible) and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares so to be offered (or the aggregate conversion price of the convertible securities so to be offered) would purchase at such Current Market Price per Common Share. Common Shares owned by or held for the account of the Corporation or any Subsidiary shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such rights or warrants are not so issued or such rights or warrants are not exercised prior to the expiration thereof, the Series C Conversion Rate shall be readjusted to the Series C Conversion Rate which would then be in effect if such record date had not been fixed, or to the Series C Conversion Rate which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually delivered upon the exercise of such rights or warrants, as the case may be.

3.4.5.7 In case the Corporation shall distribute to all holders of its Common Shares (i) shares of any class not included in the definition of Common Shares or (ii) evidences of its indebtedness or (iii) assets (excluding dividends paid in, or distributions of, cash and dividends or distributions referred to in sub-clause 3.4.5.5 above), then in each such case the number of Common Shares into which each Series C Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series C Preferred Share was theretofore convertible by a fraction, of which the nu-

erator shall be the Current Market Price per Common Share on the record date for such distribution, and the denominator shall be such Current Market Price per Common Share less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of said shares or assets or evidences of indebtedness so to be distributed applicable to one Common Share. Such adjustment shall be made successively whenever such a record date is fixed; and to the extent that such distribution is not so made, the Series C Conversion Rate shall be readjusted to the Series C Conversion Rate which would then be in effect if such record date had not been fixed.

3.4.5.8 Notwithstanding anything herein contained, the Corporation shall in no case be required to issue fractional Common Shares upon the conversion of any Series C Preferred Share. If any fractional interest in a Common Share would, except for the provisions of this subclause 3.4.5.8, be deliverable upon the conversion of any Preferred Share, the Corporation shall, at its option, adjust such fractional interest by either (a) paying to the holder of such surrendered Series C Preferred Share an amount in cash equal (to the nearest cent) to the appropriate fraction of the value (being the mean between the closing bid and asked quotations for the Common Shares on The Toronto Stock Exchange) of a Common Share on the business day next preceding the date of conversion or (b) issuing or causing to be issued to the holder of such surrendered Series C Preferred Share a non-voting and non-dividend bearing scrip certificate or certificates transferable by delivery entitling the holder thereof and of other similar certificates aggregating one full Common Share, upon surrender of such certificates for consolidation at such place in Canada as may be designated therein, to obtain from the Corporation a full share and to receive a share certificate therefor, as well as a further scrip certificate representing the excess, if any, over one full share of the scrip certificates surrendered for consolidation. Such scrip certificates shall be in such form and shall be subject to such terms and conditions as the Corporation may determine and shall provide that after the expiration of one year from their date of issuance, the Corporation may sell or cause to be sold all the Common Shares then represented by unsurrendered fractional certificates and the sole rights of the holders of the fractional certificates after the expiration of said period shall be, against surrender of their fractional certificates, to receive payment of their proportionate amount of the net proceeds of such sale, together with their proportionate amount of any dividends theretofore paid on such Common Shares, less taxes and costs of sale. Such fractional certificates shall not confer on the holders thereof any rights as a shareholder.

3.4.5.9 In any case in which this subclause 3.4.5 shall require that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event (i) issuing to the holder of any Series C Preferred Share converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event over and above the Common Shares issuable upon such conversion before giving effect to such adjustment and (ii) paying to such holder cash or delivering to such holder a scrip certificate or certificates in lieu of any fractional interest to which he is entitled pursuant to subclause 3.4.5.8; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's rights to receive such additional Common Shares and such cash, upon the occurrence of the event requiring such adjustment.

3.4.5.10 No adjustment in the Series C Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least $\frac{1}{100}$ of a share; provided, however, that any adjustments which by reason of this subclause 3.4.5.10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subclause 3.4.5 shall be made to the nearest cent or to the nearest $\frac{1}{100}$ of a share, as the case may be.

3.4.5.11 In case of any capital reorganization of the Corporation, or in case of the consolidation or merger of the Corporation with or into another corporation, or in case of the sale, transfer or other disposition of all or substantially all of the property, assets or business of the Corporation as a result of which sale, transfer or other disposition, property other than cash shall be payable or distributable to the holders of Common Shares, each Series C Preferred Share shall thereafter be convertible into the number and class of shares or other securities or property of the Corporation, or of the corporation resulting from such consolidation or merger or to which such sale, transfer or other disposition shall have been made, to which the Common Shares otherwise issuable upon conversion of such Series C Preferred Share would have been entitled upon such reorganization, consolidation, merger, or sale, transfer or other disposition if

outstanding at the time thereof; and in any such case appropriate adjustment, as determined by the Directors, shall be made in the application of the provisions set forth in this subclause 3.4.5, with respect to the conversion rights thereafter of the holders of the Series C Preferred Shares, to the end that such provisions shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares or securities or other property thereafter issuable or deliverable upon the conversion of Series C Preferred Shares. Proper provision shall be made as a part of the terms of any such consolidation, merger or sale, transfer or other disposition whereby the conversion rights of the holders of Series C Preferred Shares shall be protected and preserved in accordance with the provisions of this subclause 3.4.5.11. The provisions of this subclause 3.4.5.11 shall similarly apply to successive capital reorganizations, consolidations, mergers, sales, transfers or other dispositions of property as aforesaid.

3.4.5.12 Whenever the Series C Conversion Rate shall be adjusted as provided in this subclause 3.4.5, the Corporation, as soon as practicable and in no event later than ten (10) full business days thereafter, shall file with the Transfer Agent (if any) for the Series C Preferred Shares a statement, signed by the President, any Vice-President or the Treasurer of the Corporation and confirmed by the Corporation's auditors, stating the adjusted Series C Conversion Rate and setting forth in reasonable detail the facts requiring such adjustment, and shall promptly mail a copy of such statement to each holder of Series C Preferred Shares and publish a copy of such statement (all in the manner specified in subclause 3.4.3.1 with respect to tenders). Such Transfer Agent (if any) shall be fully protected in relying on such statement and shall be under no duty to examine into the truth or accuracy thereof. If any question shall at any time arise with respect to the adjusted Series C Conversion Rate, such question shall be determined by the auditors of the Corporation, and such determination shall be binding upon the Corporation and the holders of such shares.

3.4.5.13 The Corporation shall reserve and set aside a sufficient number of Common Shares to enable all of the Series C Preferred Shares to be converted upon the basis and upon the terms and conditions herein provided.

3.4.5.14 The right to convert any Series C Preferred Share called for redemption pursuant to the provisions hereof shall terminate and expire at the close of business on the day immediately prior to the date fixed for redemption, unless the Corporation shall make default in the payment of the redemption price of such Series C Preferred Share.

3.4.6 Automatic Conversion.

3.4.6.1 From and after the close of business on December 31, 1978, each then outstanding Series C Preferred Share shall, without any action by the Corporation or the holder, be automatically converted into one Series B Preferred Share and forthwith thereafter each holder of Series C Preferred Shares shall surrender for cancellation the certificate representing such shares to the Corporation or its Transfer Agent, if any, against the issue and delivery to such holder of the certificate for the appropriate number of Series B Preferred Shares.

3.4.6.2 All Series B Preferred Shares issued upon such automatic conversion as aforesaid shall be fully paid and non-assessable and the amount which was paid up on the Series C Preferred Shares so automatically converted shall be credited to the Series B Preferred Shares stated capital account.

3.4.6.3 The Corporation shall reserve and set aside a sufficient number of Series B Preferred Shares necessary for the automatic conversion provided for in subclause 3.4.6.1 hereof.

3.4.6.4 The registered holder of a Series B Preferred Share resulting from such automatic conversion shall be entitled to rank equally per Series B Preferred Share with respect to dividends with the holders of all other Series B Preferred Shares of record on any date on or after the date of such automatic conversion.

3.4.7 Amendments.

3.4.7.1 The provisions contained in this clause 3.4 and in the various subclauses thereof may be amended, deleted or amplified in whole or in part with the approval of the holders of the Series C Preferred Shares given in the manner hereinafter provided, in addition to any other approval required by the Act.

The approval of the holders of the Series C Preferred Shares with respect to any and all matters hereinbefore referred to may be given (i) in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Series C Preferred Shares for the time being outstanding, or (ii) by resolution passed by not less than two-thirds ($\frac{2}{3}$) of the votes cast at a meeting of the holders of the Series C Preferred Shares called for the purpose and the provisions of the second and fourth paragraphs of paragraph 3.1.7 of the rights, privileges, restrictions and conditions attaching to the Preferred Shares, as a class, shall apply, *mutatis mutandis*, with respect to the calling and holding of such meeting.

3.5 Series D Preferred Shares

The Series D Preferred Shares shall, in addition and subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares as a class, carry and be subject to the rights, privileges, restrictions and conditions hereinafter set forth: —

3.5.1 Interpretation.

3.5.1.1 The following words and phrases wherever used in this clause 3.5 shall, unless there be something in the context inconsistent therewith, have the following meanings: —

“Act” means the Canada Business Corporations Act as from time to time amended or replaced.

“Common Shares” means the Common Shares without nominal or par value of the Corporation.

“Corporation” means Genstar Limited.

“Current Market Price” per Common Share at any date shall be deemed to be the weighted average of the sales prices on The Toronto Stock Exchange for 20 consecutive trading days commencing not earlier than the 25th trading day before such date. In the event that there is no reported sale of such shares on any such day on the said Exchange, reference shall be made to the sales prices (if any) on the Montreal Stock Exchange on such day.

“Current Conversion Price” at any time means an amount equal to \$20 divided by the number of Common Shares into which at such time one Series D Preferred Share shall be convertible.

“Directors” means the Board of Directors of the Corporation for the time being and reference without more to action by the Directors shall mean action by the Directors as a board or any authorized committee thereof.

“Series D Preferred Shares” means the Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares referred to in this clause 3.5.

“Series D Conversion Period” means with respect to any Series D Preferred Share the period commencing July 1, 1977 and ending at the close of business on July 31, 1987.

“Series D Conversion Rate” means the conversion rate of the Series D Preferred Shares into Common Shares set out in subclause 3.5.5.1 hereof as the same may be adjusted from time to time as provided in subclause 3.5.5 hereof.

3.5.1.2 Words importing the singular number only shall include the plural and vice versa and words importing the masculine gender shall include the feminine gender and vice versa and words importing persons shall include firms, associations and corporations and vice versa.

3.5.2 Dividends.

3.5.2.1 The holders of the Series D Preferred Shares shall be entitled to receive, as and when declared by the Directors, fixed cumulative preferential dividends at the rate of \$1.50 in cash per annum on each Series D Preferred Share and no more, such dividends to accumulate

(i) in the case of Series D Preferred Shares issued before the first dividend record date, from November 5, 1976, and

(ii) in the case of Series D Preferred Shares issued after the first dividend record date, from the day following the dividend record date immediately preceding the date of issue of any of such Series D Preferred Shares,

and to be payable semi-annually at such times and in such places as may be determined by the Directors.

3.5.2.2 Any dividends declared on the Series D Preferred Shares will (except in case of redemption in which case payment of dividends will be made upon surrender of the certificates representing the Series D Preferred Shares to be redeemed) be paid by forwarding, by post prepaid, addressed to each holder of the Series D Preferred Shares at his address as it appears on the books of the Corporation or, in the case of joint holders, to the address of that one whose name stands first in the books of the Corporation as one of such joint holders, a cheque for such dividends (less any tax required to be deducted) payable to the order of such holder or, in the case of joint holders, to the order of all such holders failing written instructions from them to the contrary.

3.5.2.3 The forwarding of such cheque shall satisfy such dividends to the extent of the sum represented thereby (plus the amount of any tax required to be deducted as aforesaid) unless such cheque be not paid on presentation. Each dividend on the Series D Preferred Shares shall be paid to the registered holders appearing on the registers at the close of business on such day (which shall not be more than 30 days preceding the date fixed for payment of such dividend) as may be determined from time to time by the Directors.

3.5.3 *Purchase and Redemption Provisions.*

3.5.3.1 Subject to the provisions of the Act, the Corporation may at any time or from time to time purchase (if obtainable) the whole or any part of the outstanding Series D Preferred Shares in the open market or by tender, at a price or prices to be determined by the Directors, but not exceeding the amount of capital paid up on such shares, plus the premium, if any, which would have been payable if said shares had been called for redemption by the Corporation on the date of such purchase and, if said shares could not be redeemed on such date, then an additional amount equal to the premium, if any, which would have been payable, at the time of their first becoming redeemable, on the redemption of said shares respectively, plus an amount equal to all unpaid cumulative dividends (which for such purpose shall be calculated as if such dividends were accruing from day to day for the period from the expiration of the last period for which dividends have been paid up to and including the date of purchase), and plus costs of purchase; provided, however, that in the case of purchase of shares by tender the Corporation shall give notice of its intention to invite tenders to all the holders of the Series D Preferred Shares by mailing the same in a prepaid letter which if then applicable shall state full particulars as to conversion rights, addressed to each holder at his address as it appears on the books of the Corporation or, failing any such address, then to the last known address of such shareholder and shall, if two or more tenders of shares at the same price be received, which shares when added to any shares already tendered at a lower price or prices aggregate more than the number of shares to be purchased at such time, the Corporation shall prorate as nearly as may be (disregarding fractions) among the shareholders submitting such tenders at the same price the number of shares necessary to complete the number of shares to be purchased at such time.

3.5.3.2 Subject to the provisions of the Act, the Corporation may, upon not less than 30 days' notice to the holders of the Series D Preferred Shares to be redeemed given in the manner specified in subclause 3.5.3.1 hereof with respect to tenders, redeem at any time after January 1, 1980, the whole or from time to time any part of the then outstanding Series D Preferred Shares at a redemption price of \$24.00 per share plus an amount equal to all unpaid cumulative dividends (which for such purpose shall be calculated as if such dividends were accruing from day to day for the period from the expiration of the last period for which dividends have been paid up to and including the date of such redemption).

In case the Corporation desires to redeem part only of the Series D Preferred Shares, the shares to be redeemed shall be selected by lot in such manner as the Directors may determine or, if the Directors so determine, may be redeemed *pro rata* disregarding fractions.

The notice of redemption shall set out the redemption price, the Current Market Price per Common Share, the Current Conversion Price, the place at which the redemption price is to be paid, and the date on which redemption is to take place, and, if part only of the shares held by the shareholder is to be redeemed, the number thereof so to be redeemed. On or before the date so specified for redemption, the Corporation shall deposit the redemption price of the shares to be redeemed in a special account in a bank or trust company specified in said notice to be paid without interest to or to the order of the respective holders of such shares upon presentation and surrender to such bank or trust company of the certificates representing the same. Provided such deposit shall have been made, such shares so called for redemption shall on the date specified for redemption be and be deemed to be redeemed and no longer outstanding. If

a part only of the shares represented by any certificate be redeemed, a new certificate for the part not redeemed shall be issued at the expense of the Corporation. Provided the redemption price shall have been deposited as aforesaid, the shares so called for redemption shall from and after the date specified for redemption cease to be entitled to dividends, and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof, and their rights shall be limited to receiving, without interest, their proportionate part of the total redemption price so deposited against presentation and surrender of the certificates held by them respectively. If the redemption price shall not be deposited as aforesaid, the rights of the holders of the shares so called for redemption shall remain unaffected.

The Corporation may not redeem the Series D Preferred Shares at any time if any part of the redemption price which constitutes a repayment of paid-up capital would for purposes of the Income Tax Act (Canada) be deemed to have been paid as a dividend by reason of the paid-up capital limit (as that term is defined in the said Act, as the same may be amended or re-enacted from time to time) of the Corporation being less than the paid-up capital in respect of those shares so to be redeemed.

3.5.3.3 Any shares purchased or redeemed by the Corporation under subclauses 3.5.3.1 or 3.5.3.2 hereof shall not be reissued by the Corporation.

3.5.4 *Voting.*

3.5.4.1 Each holder of Series D Preferred Shares shall be entitled to notice of and to attend and vote at any general meetings of shareholders of the Corporation and shall be entitled on a show of hands to one vote and on a poll to one vote for each Series D Preferred Share held by him or which he represents by proxy.

3.5.5 *Conversion Rights.*

3.5.5.1 Each Series D Preferred Share will be convertible, at the option of the holder, at any time during the Series D Conversion Period into Common Shares on the basis of one Common Share for each Series D Preferred Share converted.

3.5.5.2 The conversion rights herein granted may be exercised only by notice in writing given to the transfer agent or secretary of the Corporation accompanied by the certificate or certificates representing the Series D Preferred Shares which the holder thereof desires to have converted, and if any of the Common Shares are to be registered in the name of any person other than such holder, duly endorsed for transfer or accompanied by properly executed stock transfer powers with signatures guaranteed by a bank or trust company and accompanied by funds in the amount of any transfer taxes payable, and such notice shall be signed by the person registered on the books of the Corporation as the holder of such Series D Preferred Shares or by his duly authorized attorney and shall specify the number of Series D Preferred Shares which the holder desires to have converted and the person in whose name the certificates for Common Shares are to be registered. Upon receipt of such notice, the Corporation shall issue certificates representing Common Shares upon the basis hereinbefore prescribed and in accordance with the provisions hereof. If less than all the Series D Preferred Shares represented by any certificate are to be converted, the holder shall be entitled to receive at the expense of the Corporation a new certificate or certificates for the Series D Preferred Shares representing the Series D Preferred Shares comprised in the original certificate which are not converted. Any transfer taxes exigible with respect to such transaction shall be borne by the holder.

3.5.5.3 All Common Shares issued upon a conversion of Series D Preferred Shares as aforesaid shall be fully paid and non-assessable and the amount which was paid-up on such Series D Preferred Shares so converted shall be credited to the Common Share stated capital account and deducted from the Preferred Share stated capital account.

3.5.5.4 The registered holder of any Series D Preferred Share on the record date for any dividend payable on such share shall be entitled to such dividend notwithstanding that such share shall have been converted into Common Shares after such record date and before the payment date of such dividend, and the registered holder of a Common Share resulting from such conversion shall be entitled to rank equally per Common Share with the registered holders of all other Common Shares of record on any date on or after the date of such conversion.

Subject to the foregoing, upon conversion of any Series D Preferred Shares there shall be no adjustment by the Corporation or by any holder of Series D Preferred Shares on account of any dividends either on the Series D Preferred Shares so converted or on the Common Shares resulting from such conversion.

3.5.5.5 In case the Corporation shall at any time after the date of issue of the Series D Preferred Shares (i) declare a dividend or make a distribution on its Common Shares in Common Shares, (ii) change its outstanding Common Shares into a greater number of shares, or (iii) change its outstanding Common Shares into a smaller number of shares, or (iv) issue any shares of its capital stock by changing the designation of its outstanding Common Shares (including any such change of designation in connection with a consolidation or merger in which the Corporation is the continuing corporation), the holder of any Series D Preferred Share surrendered for conversion after the record date for such dividend or distribution or the effective date of such change shall be entitled to receive the aggregate number and kind of shares which, if such share had been converted at the Series D Conversion Rate in effect immediately prior to such time, he would have owned upon such conversion and be entitled to receive by virtue of such dividend, distribution or change; and the Series D Conversion Rate shall be deemed to have been adjusted after such record date or effective date to apply to such aggregate number and kind of shares. Such adjustment shall be made successively whenever any event listed above shall occur.

3.5.5.6 In case the Corporation shall issue rights or warrants to all holders of any class or classes of its shares entitling them to subscribe for or purchase Common Shares (or securities convertible into Common Shares) at a price per share (or having a conversion price per share) less than the Current Market Price per Common Share on the record date for such issue, the number of Common Shares into which each Series D Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series D Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the number of Common Shares outstanding on such record date plus the number of additional Common Shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are convertible) and of which the denominator shall be the number of Common Shares outstanding on such record date plus the number of Common Shares which the aggregate offering price of the total number of Common Shares so to be offered (or the aggregate conversion price of the convertible securities so to be offered) would purchase at such Current Market Price per Common Share. Common Shares owned by or held for the account of the Corporation or any Subsidiary shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such rights or warrants are not so issued or such rights or warrants are not exercised prior to the expiration thereof, the Series D Conversion Rate shall be readjusted to the Series D Conversion Rate which would then be in effect if such record date had not been fixed, or to the Series D Conversion Rate which would then be in effect based upon the number of Common Shares (or securities convertible into Common Shares) actually delivered upon the exercise of such rights or warrants, as the case may be.

3.5.5.7 In case the Corporation shall distribute to all holders of its Common Shares (i) shares of any class not included in the definition of Common Shares or (ii) evidences of its indebtedness or (iii) assets (excluding dividends paid in, or distributions of, cash and dividends or distributions referred to in subclause 3.5.5.5 above), then in each such case the number of Common Shares into which each Series D Preferred Share shall thereafter be convertible shall be determined by multiplying the number of Common Shares into which such Series D Preferred Share was theretofore convertible by a fraction, of which the numerator shall be the Current Market Price per Common Share on the record date for such distribution, and the denominator shall be such Current Market Price per Common Share less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of said shares or assets or evidences of indebtedness so to be distributed applicable to one Common Share. Such adjustment shall be made successively whenever such a record date is fixed; and to the extent that such distribution is not so made, the Series D Conversion Rate shall be readjusted to the Series D Conversion Rate which would then be in effect if such record date had not been fixed.

3.5.5.8 Notwithstanding anything herein contained, the Corporation shall in no case be required to issue fractional Common Shares upon the conversion of any Series D Preferred Shares. If any fractional interest in a Common Share would, except for the provisions of this subclause 3.5.5.8, be deliverable upon the conversion of any Preferred Share, the Corporation shall, at its option, adjust such fractional interest by either (a) paying to the holder of such surrendered Series D Preferred Share an amount in cash equal (to the nearest cent) to the appropriate fraction of the value (being the mean between the closing bid and asked quotations for the Common Shares on The Toronto Stock Exchange) of a Common Share on

the business day next preceding the date of conversion or (b) issuing or causing to be issued to the holder of such surrendered Series D Preferred Share a non-voting and non-dividend bearing scrip certificate or certificates transferable by delivery entitling the holder thereof and of other similar certificates aggregating one full Common Share, upon surrender of such certificates for consolidation at such place in Canada as may be designated therein, to obtain from the Corporation a full share and to receive a share certificate therefor, as well as a further scrip certificate representing the excess, if any, over one full share of the scrip certificates surrendered for consolidation. Such scrip certificates shall be in such form and shall be subject to such terms and conditions as the Corporation may determine and shall provide that after the expiration of one year from their date of issuance, the Corporation may sell or cause to be sold all the Common Shares then represented by unsurrendered fractional certificates and the sole rights of the holders of the fractional certificates after the expiration of said period shall be, against surrender of their fractional certificates, to receive payment of their proportionate amount of the net proceeds of such sale, together with their proportionate amount of any dividends theretofore paid on such Common Shares, less taxes and costs of sale. Such fractional certificates shall not confer on the holders thereof any rights as a shareholder.

3.5.5.9 In any case in which this subclause 3.5.5 shall require that an adjustment shall become effective immediately after a record date for an event, the Corporation may defer until the occurrence of such event (i) issuing to the holder of any Series D Preferred Share converted after such record date and before the occurrence of such event the additional Common Shares issuable upon such conversion by reason of the adjustment required by such event over and above the Common Shares issuable upon such conversion before giving effect to such adjustment and (ii) paying to such holder cash or delivering to such holder a scrip certificate or certificates in lieu of any fractional interest to which he is entitled pursuant to subclause 3.5.5.8; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's rights to receive such additional Common Shares and such cash, upon the occurrence of the event requiring such adjustment.

3.5.5.10 No adjustment in the Series D Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least $\frac{1}{100}$ of a share; provided, however, that any adjustments which by reason of this subclause 3.5.5.10 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this subclause 3.5.5 shall be made to the nearest cent or the nearest $\frac{1}{100}$ of a share, as the case may be.

3.5.5.11 In case of any capital reorganization of the Corporation, or in case of the consolidation or merger of the Corporation with or into another corporation, or in case of the sale, transfer or other disposition of all or substantially all of the property, assets or business of the Corporation as a result of which sale, transfer or other disposition, property other than cash shall be payable or distributable to the holders of Common Shares, each Series D Preferred Share shall thereafter be convertible into the number and class of shares or other securities or property of the Corporation, or of the corporation resulting from such consolidation or merger or to which such sale, transfer or other disposition shall have been made, to which the Common Shares otherwise issuable upon conversion of such Series D Preferred Share would have been entitled upon such reorganization, consolidation, merger, or sale, transfer or other disposition if outstanding at the time thereof; and in any such case appropriate adjustment, as determined by the Directors, shall be made in the application of the provisions set forth in this subclause 3.5.5, with respect to the conversion rights thereafter of the holders of the Series D Preferred Shares, to the end that such provisions shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares or securities or other property thereafter issuable or deliverable upon the conversion of Series D Preferred Shares. Proper provision shall be made as a part of the terms of any such consolidation, merger or sale, transfer or other disposition whereby the conversion rights of the holders of Series D Preferred Shares shall be protected and preserved in accordance with the provisions of this subclause 3.5.5.11. The provisions of this subclause 3.5.5.11 shall similarly apply to successive capital reorganizations, consolidations, mergers, sales, transfers or other dispositions of property as aforesaid.

3.5.5.12 Whenever the Series D Conversion Rate shall be adjusted as provided in this subclause 3.5.5, the Corporation, as soon as practicable and in no event later than 10 full business days thereafter, shall file with the Transfer Agent (if any) for the Series D Preferred Shares a statement, signed by any officer of the Corporation, and confirmed by the Corporation's auditors, stating the adjusted Series D

Conversion Rate and setting forth in reasonable detail the facts requiring such adjustment, and shall promptly mail a copy of such statement to each holder of Series D Preferred Shares and publish a copy of such statement (all in the manner specified in subclause 3.5.3.1 with respect to tenders). Such Transfer Agent (if any) shall be fully protected in relying on such statement and shall be under no duty to examine into the truth or accuracy thereof. If any question shall at any time arise with respect to the adjusted Series D Conversion Rate, such question shall be determined by the auditors of the Corporation, and such determination shall be binding upon the Corporation and the holders of such shares.

3.5.5.13 The Corporation shall not pay any stock dividend upon its Common Shares or make any distribution (other than cash dividends) to the holders of its Common Shares, or issue rights to the holders of its Common Shares to subscribe for securities of any class of the Corporation, unless the Corporation shall have given notice of its intention so to do (in the manner specified in subclause 3.5.3.1 hereof with respect to tenders) to the holders of the Series D Preferred Shares then outstanding not less than 14 days prior to the date fixed or to be fixed by the Corporation as the record date for the determination of the holders of the Common Shares entitled to receive such stock dividend, distribution or rights. Such notice shall set forth the record date fixed or to be fixed as aforesaid and such particulars, if any, of such stock dividend, distribution or rights as shall have been fixed and determined at the date on which such notice is given. The accidental failure to give the notice required by this subclause 3.5.5.13 or any defect therein shall not affect the legality or validity of any payment, distribution or issue.

3.5.5.14 The Corporation shall reserve and set aside a sufficient number of Common Shares to enable all of the Series D Preferred Shares to be converted upon the basis and upon the terms and conditions herein provided.

3.5.5.15 The right to convert any Series D Preferred Share called for redemption pursuant to the provisions hereof shall terminate and expire at the close of business on the day immediately prior to the date fixed for redemption, unless the Corporation shall make default in the payment of the redemption price of such Series D Preferred Share.

3.5.6 Amendments.

3.5.6.1 The provisions contained in this clause 3.5 and in the various subclauses thereof may be amended, deleted or amplified in whole or in part with the approval of the holders of the Series D Preferred Shares given in the manner hereinafter provided, in addition to any other approval required by the Act.

The approval of the holders of the Series D Preferred Shares with respect to any and all matters hereinbefore referred to may be given (i) in writing by the holders of not less than $\frac{2}{3}$ of the Series D Preferred Shares for the time being outstanding, or (ii) by resolution passed by not less than $\frac{2}{3}$ of the votes cast at a meeting of the holders of the Series D Preferred Shares called for the purpose and the provisions of the second and fourth paragraphs of paragraph 3.1.7 of the rights, privileges, restrictions and conditions attaching to the Preferred Shares, as a class, shall apply, *mutatis mutandis*, with respect to the calling and holding of such meeting.

3.6 Second Preferred Shares as a Class

The Second Preferred Shares shall as a class carry and be subject to the following rights, privileges, restrictions and conditions:—

3.6.1 The Second Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by resolution of the board of directors of the Corporation.

3.6.2 The board of directors of the Corporation shall, subject as hereinafter provided and subject to the Canada Business Corporations Act, determine, by resolution duly passed before the issue of the Second Preferred Shares of each series, the designation, rights, privileges, restrictions and conditions to be attached to the Second Preferred Shares of such series, including, but without in any way limiting or restricting the generality of the foregoing:—

- (i) provisions, if any, with respect to the rights of the holders of the Second Preferred Shares of each series to receive notice of or to attend any meeting of the shareholders of the Corporation or to vote at any such meeting;

- (ii) the rate, amount or method of calculation of preferential dividends, whether or not cumulative or non-cumulative or partially cumulative, and whether such rate, amount or method of calculation shall be subject to change or adjustment in the future, the currency or currencies of payment, the date or dates and places of payment thereof and the date or dates from which such preferential dividends shall accrue;
- (iii) the rights of the Corporation, if any, to purchase or redeem the same and the consideration for and the terms and conditions of any such purchase or redemption;
- (iv) the rights of conversion and/or exchange, if any, and the rates and other terms and conditions of any such rights;
- (v) the rights of retraction, if any, vested in the holders of shares of such series, and the prices and the other terms and conditions of any rights of retraction, and whether any additional rights of retraction may be vested in such holders in the future;
- (vi) the terms and conditions of any share purchase plan or sinking fund; and
- (vii) the restrictions, if any, respecting payment of dividends on the Common Shares or on any other shares ranking junior to the Second Preferred Shares;

the whole subject to the issue of a certificate of amendment setting forth the designation, rights, privileges, restrictions and conditions to be attached to the Second Preferred Shares of such series.

3.6.3 The rights, privileges, restrictions and conditions attaching to the Second Preferred Shares shall be subject and subordinate to those attaching to the Preferred Shares.

3.6.4 The Second Preferred Shares shall, with respect to the payment of dividends, be entitled to preference over the Common Shares and over any other shares ranking junior to the Second Preferred Shares and no dividends shall at any time be declared or paid or set apart for payment on the Common Shares or on any other shares of the Corporation ranking junior to the Second Preferred Shares, nor shall the Corporation call for redemption or purchase any of the Second Preferred Shares (less than the total number of Second Preferred Shares then outstanding) or any shares of the Corporation ranking junior to the Second Preferred Shares unless at the date (the particular time) of such declaration or call for redemption or purchase, as the case may be, all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Second Preferred Shares then issued and outstanding and, in respect of each series of non-cumulative Second Preferred Shares then issued and outstanding, there shall have been paid or set apart for payment all declared and unpaid non-cumulative dividends plus an amount equal to all undeclared dividends for and in respect of the 12-month period ending not more than 3 months before the particular time; provided, however, that, in the case of any Second Preferred Shares not outstanding for the whole of said 12-month period, said amount may, if deemed feasible in the discretion of the directors, be appropriately proportionately reduced.

3.6.5 In the event of the liquidation, dissolution or winding-up of the Corporation or other distribution of assets of the Corporation among shareholders for the purpose of winding-up its affairs, the holders of the Second Preferred Shares shall, before any amount shall be paid to or any property or assets of the Corporation distributed among the holders of the Common Shares or any other shares of the Corporation ranking junior to the Second Preferred Shares, be entitled to receive (i) an amount equal to the price at which such shares were issued together with, in the case of cumulative Second Preferred Shares, all unpaid cumulative dividends (which for such purpose shall be calculated as if such cumulative dividends were accruing from day to day for the period from the expiration of the last period for which cumulative dividends have been paid up to and including the date of distribution) and, in the case of non-cumulative Second Preferred Shares, all declared and unpaid non-cumulative dividends, and (ii) if such liquidation, dissolution, winding-up or distribution shall be voluntary, an additional amount equal to the premium, if any, which would have been payable on the redemption of said Second Preferred Shares respectively if they had been called for redemption by the Corporation on the date of distribution and, if said Second Preferred Shares could not be redeemed on such date, then an additional amount equal to the greatest premium, if any, which would have been payable on the redemption of said Second Preferred Shares respectively. After payment to the holders of the Second Preferred Shares of the

amounts so payable to them, they shall not be entitled to share in any further distribution of the property or assets of the Corporation.

3.6.6 The Second Preferred Shares of each series shall rank on a parity with the Second Preferred Shares of every other series with respect to the payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, provided, however, that in case such assets are insufficient to pay in full the amount due on all the Second Preferred Shares, then such assets shall be applied, firstly, to the payment equally and rateably of an amount equal to the price at which the Second Preferred Shares of each series were issued and the premium thereon, if any, and, secondly, *pro rata* in the payment of accrued and unpaid cumulative dividends and declared and unpaid non-cumulative dividends.

3.6.7 The holders of the Second Preferred Shares shall not, as such, be entitled as of right to subscribe for or to purchase or receive the whole or any part of any shares, bonds, debentures or other securities or any rights to acquire the same, which may from time to time be issued by the Corporation except in accordance with any conversion, exchange or offer rights set forth in the rights, privileges, restrictions and conditions attaching to the Second Preferred Shares of any series.

3.6.8 The provisions of paragraphs 3.6.1 to 3.6.7, inclusive, and of this paragraph 3.6.8 may be deleted, varied, modified, amended or amplified in whole or in part by a certificate of amendment, but only with the prior approval of the holders of the Second Preferred Shares given as hereinafter specified in addition to any other approval required by the Canada Business Corporations Act.

The approval of the holders of the Second Preferred Shares with respect to any and all matters hereinbefore referred to may be given in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Second Preferred Shares for the time being outstanding or by resolution duly passed by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at a meeting of the holders of the Second Preferred Shares duly called and held for the purpose of considering the subject matter of such resolution and at which meeting the holders of not less than a majority of the outstanding Second Preferred Shares are present in person or represented by proxy in accordance with the by-laws of the Corporation; provided, however, that, if at any such meeting, when originally held, the holders of at least a majority of the outstanding Second Preferred Shares are not present in person or so represented by proxy within thirty (30) minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than fifteen (15) nor more than twenty-nine (29) days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of Second Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than a majority of all Second Preferred Shares then outstanding, may transact the business for which the meeting was originally called, and a resolution duly passed and carried thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at such adjourned meeting shall constitute the approval of the holders of the Second Preferred Shares hereinbefore mentioned. Notice of any such original meeting of the holders of the Second Preferred Shares shall be given not less than twenty-one (21) nor more than fifty (50) days prior to the date fixed for such meeting and shall state the nature of the business to be transacted and the text of any resolution to be submitted to the meeting. No notice of the adjourned meeting need be given other than by announcement at the original meeting. The formalities to be observed with respect to the giving of notice of any such original meeting and the conduct of such meeting and of the adjourned meeting shall be those from time to time prescribed in the by-laws of the Corporation with respect to meetings of shareholders or in the Canada Business Corporations Act.

If the deletion, variation, modification, amendment or amplification of the provisions hereinbefore contained especially affects the rights of the holders of Second Preferred Shares of any series, in a manner different from that in or to which the rights of the holders of Second Preferred Shares of any other series are affected, then such deletion, variation, modification, amendment or amplification shall, in addition to being approved by the holders of the Second Preferred Shares as hereinabove set forth, be approved by the holders of the Second Preferred Shares of such series so especially affected, which approval may be given in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Second Preferred Shares of such series or by resolution passed by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at a meeting of the holders of the Second Preferred Shares of such series, and the provisions of this paragraph 3.6.8 shall apply, *mutatis mutandis*, with respect to the holding of such meeting.

At any meeting of the holders of Second Preferred Shares, without distinction as to series, each holder of Second Preferred Shares shall be entitled to one (1) vote in respect of each Second Preferred Share held by him. At any meeting of the holders of Second Preferred Shares of any particular series, each holder shall be entitled to one (1) vote in respect of each Second Preferred Share of such series held by him.

3.7 Common Shares

The Common Shares shall entitle the holders thereof to one (1) vote at all meetings of shareholders, except meetings at which only holders of another specified class of shares are entitled to vote, and shall, subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares and the Second Preferred Shares, whether as a class or a series, and to any other class or series of shares of the Corporation which rank prior to the Common Shares, entitle the holders thereof to receive the remaining property of the Corporation upon a dissolution.

Exhibit “C”

DIRECTORS' RESOLUTION

After discussion it was duly moved, seconded and unanimously resolved that: —

1. With effect from and after the date (Date of Continuance) of the issue of the Certificate of Continuance of the Corporation under the Canada Business Corporations Act (the new Act) the rights of the holders of registered shares outstanding at such date to obtain bearer share warrants in respect of their shares shall be and are hereby terminated;
2. In conformity with the provisions of the new Act, no shares of the Corporation issued after the Date of Continuance shall be entitled to bearer share warrants;
3. Nothing in this resolution shall affect the rights of the holders of bearer share warrants now outstanding or issued prior to the Date of Continuance or the coupons or talons pertaining thereto;
4. Holders of registered shares who are entitled to obtain bearer share warrants shall continue to have that right up to but not after the Date of Continuance;
5. After continuance the Corporation proposes to establish a procedure whereby registered shareholders may obtain bearer deposit receipts or scrip giving them substantially the same rights and privileges as though they were the holders of bearer share warrants; and
6. Any two officers or any officer acting with any director of the Corporation be and they are hereby authorized and empowered, for and on behalf and in the name of the Corporation, to sign, execute and deliver and affix the seal of the Corporation to any and all such documents, instruments and writings and do all such other acts and things as may be required to carry out and give full effect to the foregoing provisions of this resolution.

Exhibit "D"

ACQUISITION OF ABBEY GLEN PROPERTY CORPORATION

A: THE ACQUISITION

Material features of the transactions regarding Abbey Glen

Pursuant to an Agreement dated as of July 15, 1976, between Genstar and Capcount Overseas Limited (Capcount), Engineered Homes Limited, a subsidiary of Genstar acquired on July 28th, 1976, 7,326,099 common shares of Abbey Glen, being 62.3% of the outstanding common shares for a cash purchase price of \$6.75 per share. Capcount is a wholly-owned subsidiary of Capital and Counties Property Limited of London, England. Capcount's holdings at the time of the acquisition were subject to certain charges in favor of creditors and under the terms of the purchase agreement, Genstar was able to liquidate the indebtedness of one creditor at a discount. In order to obtain the release of the Abbey Glen common shares, Genstar, through a subsidiary, loaned to a Bermuda subsidiary of Capital and Counties Property Limited, 3.5 million dollars (U.S.) secured by the guarantee of Capital and Counties Property Limited and a mortgage on property located in Bermuda. The loan is repayable on July 31st, 1981 and bears interest at an average rate of approximately 7% per annum.

One of the terms of the purchase agreement obligated Genstar and Abbey Glen to make available to the remaining shareholders of Abbey Glen at least the \$6.75 cash purchase price per share received by Capcount. On August 20th, 1976, a letter and accompanying Information Circular was sent to the remaining shareholders of Abbey Glen proposing a scheme of arrangement under Sec. 195 of The Business Corporations Act (Ontario) (hereinafter called the "Arrangement").

The following is a summary of the principal terms of the Arrangement:

1. The unissued common shares of Abbey Glen and the issued common shares of Abbey Glen, other than the shares owned by Genstar and its subsidiaries, were reclassified as a new class of special shares on a one-for-one basis. The shares were designated "Class A Special Shares".
2. The Class A Special Shares are no par value shares, are fully voting and carry a cumulative preferential dividend of 36 cents per year accruing from November 5th, 1976. The Class A Special Shares participate on a repayment of capital only to the extent of the amounts paid up thereon plus dividends accumulated and unpaid. The Class A Special Shares were made redeemable by Abbey Glen on or after the earlier of i) November 5th, 1979, and ii) the date on which Genstar, either directly or through its subsidiaries, acquired beneficial ownership of seventy-five percent of the Class A Special Shares of Abbey Glen outstanding on November 5th, 1976. The redemption price was fixed at \$6.75 per share plus all cumulative dividends accrued to the date of redemption and unpaid.
3. Under the Arrangement, Genstar agreed, at the option of the holder of the Class A Special Shares of Abbey Glen: i) to purchase at a price of \$6.75 per share any Class A Special Shares of Abbey Glen tendered to it during the period commencing November 5th, 1976 and ending January 5th, 1977, or ii) to issue, during a period commencing on November 5th, 1976 and terminating on December 31st, 1986, Series D Preferred Shares of Genstar in exchange for Class A Special Shares of Abbey Glen tendered to it by shareholders other than shareholders who are nationals, citizens or residents or persons normally residing in the United States of America or its territories or possessions on the basis of three Series D Preferred Shares of Genstar for ten Class A Special Shares of Abbey Glen.
4. The Series D Preferred Shares are fully voting, carry a cumulative preferential dividend of \$1.50 per year, are convertible into common shares of Genstar on a one-for-one basis during the period commencing July 1st, 1977 and terminating June 30th, 1987 and are redeemable by Genstar subsequent to January 1st, 1980 at the redemption price of \$24.00 per share plus all cumulative dividends accrued to the date of redemption and unpaid.

In order for the Arrangement to come into effect, the Arrangement had to first be approved by a least three-quarters of the votes cast on the resolution to approve the same at a General Meeting of shareholders of Abbey Glen and then approved by a judge of the Supreme Court of Ontario. The resolution was approved by 99.8% of the total votes cast at the General Meeting of shareholders. The hearing before a judge of the Supreme Court of Ontario was held on October 15, 1976 and after reviewing the Arrangement and other related documentation presented, the judge approved the Arrangement. Although dissenting shareholders were entitled to appear no such shareholders en-

tered an appearance. Following court approval, Abbey Glen had to deliver a statement of the Arrangement to the Minister of Consumer and Commercial Relations of Ontario for his approval. On November 5, 1976, the Minister issued a certificate approving the Arrangement completing all steps necessary for the Arrangement to come into effect.

In addition to common shares, Abbey Glen had issued share purchase warrants and convertible debentures carrying future rights to obtain common shares of Abbey Glen. Abbey Glen had provided for a reserve of common shares issuable upon conversion of the debentures or exercise of the warrants. On August 15th, 1976, Abbey Glen and the Trustee named in the share purchase warrant indenture made between Western Realty Projects Ltd. (now Abbey Glen) and Montreal Trust Company executed a supplemental indenture providing that the holders of warrants to purchase common shares of Abbey Glen have the right to purchase and receive upon the exercise of such warrants, the same number of Class A Special Shares of Abbey Glen as the number of common shares they would have received had the Arrangement not come into effect. On October 7th, 1976, a meeting of the convertible debenture holders of Abbey Glen approved a reclassification of the unissued common shares of Abbey Glen reserved against the conversion rights attached to the convertible debentures as Class A Special Shares on a one-for-one basis.

One of the terms of the Arrangement provided that if Genstar or any of its subsidiaries acquired beneficial ownership of seventy-five percent of the Class A Special Shares of Abbey Glen outstanding on November 5th, 1976, pursuant to the Arrangement, Genstar was entitled to require Abbey Glen to redeem the remaining Class A Special Shares. During December 1976, it was determined that Genstar, through its subsidiary Engineered Homes Limited, had acquired in excess of the required seventy-five percent of the Class A Special Shares and by letter Genstar requested Abbey Glen to redeem the issued and outstanding Class A Special Shares as of March 1st, 1977. Notice of redemption was sent to Class A Special shareholders by Abbey Glen on January 14th, 1977, following enactment of the necessary resolutions.

As of March 1st, 1977 after giving effect to the redemption of the Class A Special Shares, Genstar owned all of the outstanding voting shares of Abbey Glen.

All negotiations concerning the acquisition were carried on at arms length. The high and low market price on the Toronto Stock Exchange of Abbey Glen's shares on July 14, 1977, the day before announcement that Genstar had purchased the controlling shares of Abbey Glen, was \$6.50 and \$6.25. As at December 31, 1976 the components of the consideration for the acquisition are, in summary, as follows:

	<u>000's</u>
Cash	\$69,931
Series D Preferred Shares and Related Contributed Surplus	\$ 7,296
Minority Interest to be Acquired	<u>\$ 2,106</u>
Total	\$79,333

Reasons for the Acquisition

Prior to entering into the Agreement dated as of July 15th, 1976 with Capcount, the Board of Directors of Genstar determined that the acquisition of Abbey Glen on the terms described above would be in the best interest of Genstar. The acquisition gives Genstar a significant increase in its holdings of land for development in Western Canada, Ontario and Eastern United States. In determining the price to be paid to purchase Abbey Glen consideration was given to the value of the assets to Genstar, the relative earning power of those assets, and other factors deemed relevant.

Shareholder Approval

As indicated above, the acquisition of Abbey Glen has been completed. There is no statutory requirement that these transactions be submitted to Genstar shareholders for their approval. Moreover, it was not practicable, in the opinion of management, to request such approval prior to the consummation of the transaction. However, under the New York Stock Exchange rules and policies, the Exchange Staff has requested that these transactions be submitted to the shareholders of Genstar for their approval. If shareholder approval is not obtained, the New York Stock Exchange may take action with respect to the listing of Genstar's common shares on the Exchange. The legality of the various agreements executed by Genstar and the acts of the directors, officers and agents of Genstar in connection with the acquisition would not be affected by failure to obtain shareholder approval.

Quorum and Vote Required

The affirmative vote of a majority of Genstar shareholders represented at the meeting is required for approval of the Abbey Glen transactions, provided that not less than 25% of the outstanding common shares of Genstar, including not less than 50% of the outstanding registered shares, is represented at the meeting.

Integration with Genstar's Operations

Abbey Glen land holdings are in the process of being integrated with similar operations carried on by Genstar. Since the acquisition Genstar and Abbey Glen have pursued a program of disposing of certain of the revenue properties held by Abbey Glen and on February 4, 1977, both companies announced the sale of 14 apartment buildings located primarily in Western Canada for \$59 million.

B: DESCRIPTION OF GENSTAR SERIES D PREFERRED SHARES

As mentioned earlier in this Exhibit, part of the consideration for the acquisition of Abbey Glen was the issue by Genstar of a new "Series D \$1.50 Cumulative Convertible Redeemable Preferred Shares" (Series D Preferred Shares). The Series D Preferred Shares are of a class created by supplementary letters patent in 1969 as \$50 par value shares and subdivided pursuant to By-Law 36, and confirmed by Supplementary Letters Patent dated November 7th, 1973, into 5,000,000 preferred shares of \$20 per value each.

On November 5th, 1976, Genstar applied for and was issued Supplementary Letters Patent designating 1,726,476 of Genstar's authorized class of preferred shares as Series D Preferred Shares. As of March 1st, 1977, 369,247 Series D Preferred Shares had been issued in exchange for the Abbey Glen Class A Special Shares under the terms of the Arrangement and all remaining Class A Special Shares had been redeemed. Those having rights to Class A Special Shares, namely warrant holders and convertible debenture holders of Abbey Glen, still may exercise their rights to acquire Class A Special Shares and exchange the same for Genstar Series D Preferred Shares up to December 31st, 1986.

Set out below is a summary of the attributes of the Genstar Series D Preferred Shares.

Series D preferred shareholders are entitled to receive cumulative cash dividends of \$1.50 per share per annum. Such dividends accrue and are cumulative from November 5th, 1976 or, in the case of Series D Preferred Shares issued after the first dividend record date, from the dividend record date immediately preceding the date of issue. Dividends are payable semi-annually at such times and in such places as may be determined by the Directors of Genstar.

The holder of Series D Preferred Shares are entitled to notice of and to attend and vote at any general meetings of shareholders of Genstar and are entitled to one vote for each such preferred share.

The conversion rights applicable to the Series D Preferred Shares permit the holder thereof, at his option, during the period July 1, 1977 to June 30, 1987 to convert each of such shares into one fully-paid and non-assessable common share of Genstar. In the event Genstar declares a stock dividend or makes a stock distribution, or subdivides or consolidates its outstanding common shares, or issues any shares by reclassification, or issues any rights or warrants to holders of any class of shares entitling them to purchase common shares at a price per share (or having a conversion price per share) less than the current market price, the number of common shares into which such preferred shares shall thereafter be convertible shall be appropriately adjusted. The term "current market price" refers to a weighted average of the sales prices on the Toronto Stock Exchange for a stated period and the term "current conversion price" at any time means an amount equal to \$20 divided by the number of common shares into which at such time one Series D Preferred Share shall be convertible. No fractional shares will be issued but any fraction shall at the option of Genstar be adjusted in cash or by cheque or by the issuance of non-voting and non-dividend bearing scrip certificates. Also, in case of capital reorganization of Genstar or its merger with another company or the sale of substantially all of its assets or business as a result of which property other than cash shall be distributable to the holders of the common shares, appropriate changes shall be made in the conversion rights

pertaining to such preferred shares. Genstar shall not pay any stock dividend or make any distribution (other than cash dividends) to the holders of its common shares, or issue to them rights to subscribe for securities of Genstar, unless Genstar shall have given notice of its intention so to do to the holders of its Series D Preferred Shares. In the event of the conversion of any such preferred shares into common shares, there shall be no adjustment on account of any dividends either on the preferred shares or on the common shares.

Genstar may purchase for cancellation the whole or any part of the Series D Preferred Shares in the open market or by tender at a price not exceeding the redemption price. Notice of any purchase by tender shall be given to all holders of the said shares.

Genstar may redeem the whole or any part of the outstanding Series D Preferred Shares at any time after January 1, 1980, at the redemption price of \$24.00 per share plus an amount equal to all unpaid cumulative dividends.

The Series D Preferred Shares are issued for a stated consideration of \$22.50 each.

The provisions relating to all preferred shares of a class and specifically to the Series D Preferred Shares as a series may be amended only with approval of the holders thereof, such approval to be given in the manner set out in the provisions of the preferred shares as a class.

C: CERTAIN ACCOUNTING AND FINANCIAL INFORMATION

The accounts of Abbey Glen Property Corporation were consolidated effective July 28, 1976 on the basis of purchase accounting assuming 100% control. Reference is made to the Consolidated Financial Statements of Genstar, the Consolidated Summary of Operations and in particular to Note 1 of the Consolidated Financial Statements included in Genstar's 1976 Annual Report, incorporated by reference in the Proxy Statement, for further accounting information concerning the consolidation of Abbey Glen.

To provide a history of the operations of Abbey Glen, the audited statements of earnings, retained earnings and changes in financial position of Abbey Glen for the years ended March 31, 1976 and 1975 and the audited balance sheet as at March 31, 1976, together with unaudited statements of earnings and retained earnings for the year ended March 31, 1974, are set out at the end of this Exhibit as Schedule "A".

Summary Financial Information

(The accountants' report attached hereto does not pertain to this summary financial information.)

Genstar Limited

	Years ended December 31				
	1975	1974	1973	1972	1971
	(millions of Canadian dollars)				
Statement of Income					
Revenues	\$721.5	\$648.6	\$511.8	\$369.8	\$280.6
Income before extraordinary items	47.2	35.1	25.0	15.1	10.6
Net income	47.2	35.1	25.0	14.4	10.6
Balance Sheet					
Working capital	103.1	44.2	66.0	51.0	18.3
Total assets	704.6	606.7	501.3	406.1	381.2
Total assets less excess of cost of assets acquired over book value	669.6	571.6	466.3	371.1	345.9
Total indebtedness	255.9	221.2	174.9	178.0	177.4
Shareholders equity	263.6	226.0	198.6	136.3	126.5
Per Common Share (dollars) — United States Method					
Income before extraordinary items	4.01	3.05	2.51	1.65	1.18
Net income					
— primary	4.01	3.05	2.51	1.58	1.13
— fully diluted	3.69	2.77	2.24	1.37	1.18
Dividends	1.20	1.05	0.80	0.65	0.60

Abbey Glen Property Corporation

Abbey Glen Property Corporation	Years ended March 31		
	1976	1975	1974*
	(millions of Canadian dollars)		
Statement of Income			
Revenues	\$107.7	\$107.1	\$ 74.4
Income before extraordinary items	8.3	9.3	6.0
Net income in accordance with Canadian generally accepted accounting principles	8.3	9.3	6.0
Deduct after-tax effect if straight-line basis of depreciation for income properties was followed instead of present sinking fund basis (this being the only difference between Canadian and United States generally accepted accounting principles having a material effect in the case of Abbey Glen Property Corporation)	0.8*	0.9*	0.5
Net income in accordance with United States generally accepted accounting principles	7.5*	3.4*	5.5
Balance Sheet			
Real estate investments	322.9	314.0	249.9
Total assets	387.6	388.5	304.3
Total indebtedness	270.0	277.9	210.9
Shareholders' equity	75.5	70.1	62.5
Per Common Share (dollars) — United States Method			
Net income in accordance with United States generally accepted accounting principles			
— primary	0.64*	0.71*	0.47
— fully diluted	0.61*	0.67*	0.45
Dividends	0.25	0.15	N/A
	*unaudited		

*unaudited

Market Prices Per Share

Genstar's common shares are listed on the New York Stock Exchange in the United States, on the Toronto, Montreal, Alberta and Vancouver Stock Exchanges in Canada and on the Brussels and Antwerp Bourses in Belgium. The table below gives the reported high and low sales prices of Genstar's common shares for the periods indicated on the Toronto and New York Stock Exchanges stated in the currencies of the respective countries.

	Toronto		New York	
	High	Low	High	Low
1975	\$19.87	\$14.37	\$19.37	\$17.25
1976 —				
First Quarter	24	19	24.63	18.63
Second Quarter	23.25	20.13	23.63	20.25
Third Quarter	23.25	20.50	24	21
Fourth Quarter	23.37	19.75	23.50	20.13
1977 —				
First Quarter (through March 1)	24.37	22.75	23.63	22.37

The shares of Abbey Glen were listed on the Montreal, Toronto and Vancouver Stock Exchanges up to March

1st, 1977. The table below gives the reported high and low sales prices of Abbey Glen's common shares before and after reclassification to Class A Special Shares for the periods indicated on the Montreal and Toronto Stock Exchanges.

	Toronto		Montreal	
	High	Low	High	Low
1975	\$4.35	\$1.95	\$4.30	\$3.20
1976—				
First Quarter	3.90	3.10	Nil	Nil
Second Quarter (1)	6.87	3.30	6.50	3.30
Third Quarter	6.63	5.25	6.63	5.75
Fourth Quarter	6.87	6.37	6.87	6.37
1977—				
First Quarter (through March 1)	6.87	6.75	Nil	Nil

(1) On April 9 trading was halted on the stock exchanges following the announcement that discussions were taking place between Capital & Counties Property Limited and a third party (not Genstar) concerning the sale of the control block of Abbey Glen common shares.

Book Value Per Share

	Abbey Glen as at		Genstar Limited as at
	March 31, 1976	December 31, 1976	December 31, 1976
Shareholders' Equity	75,511,000	76,614,000	\$315,378,000
Actual Number of Common Shares Outstanding	11,735,019	7,326,099	11,885,000
Book Value Per Share	6.43	6.37	24.28

D: BUSINESS OF GENSTAR AND OF ABBEY GLEN AS OF DECEMBER 31, 1976

Genstar and its subsidiaries, unless the context otherwise indicates shall be referred to in this business description as "the Company".

The Company carries on its principal operations through the following divisions and subsidiaries reporting to the Company's corporate management which is responsible for overall policy and financial planning:

Building Materials

Building Products and Concrete Supply (division)	Miron Company Ltd.
Con-Force Products Ltd.	Ocean Construction Supplies Limited
Consolidated Concrete Limited	Redi-Mix Limited
	Truroc Gypsum Products Ltd.

Cement

Inland Cement Industries (division)
Miron Company Ltd.
Ocean Cement Limited

Housing and Land Development

Abbey Glen Property Corporation
BACM Development Corporation Limited
Broadmoor Homes, Inc.
Engineered Homes Limited
Keith Construction Company Limited
Sutter Hill Limited
Home Smith Limited

Construction

BA Construction Ltd.
BACM Construction Company Limited
Miron Company Ltd.
Standard-General Construction Limited

Chemicals and Fertilizers

Genstar Chemical (division)

Marine

McAllister Towing & Salvage Ltd.
Seaspan International Ltd.
Vancouver Shipyards Co. Ltd.
Genstar Overseas Limited

Investments

Abbey Glen Property Corporation
Sutter Hill Ventures
Indussa Corporation

Revenues and income before extraordinary items of each of the Company's operations during the five years ended December 31, 1976 are presented in the following summary:

	1976	1975	1974	1973	1972
	(thousands of dollars)				
REVENUES					
Building Materials	222,417	192,330	177,992	125,083	101,582
Cement	127,932	111,426	88,759	49,927	42,808
Housing and Land Development	253,677	160,318	119,050	119,709	84,528
Construction	152,491	146,351	143,209	80,475	69,755
Chemicals and Fertilizers	64,367	74,266	60,915	47,309	38,906
Marine	62,441	61,472	51,078	34,865	4,113
Investments	92,230	44,594	76,330	94,693	70,479
	<u>975,555</u>	<u>790,757</u>	<u>717,333</u>	<u>552,061</u>	<u>412,171</u>
Inter-unit transactions	87,206	69,210	68,711	40,267	42,380
	<u>\$888,349</u>	<u>\$721,547</u>	<u>\$648,622</u>	<u>\$511,794</u>	<u>\$369,791</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS					
Building Materials	13,198	12,381	8,195	5,539	4,563
Cement	11,242	9,209	7,457	6,552	4,704
Housing and Land Development	23,323	11,735	7,556	6,652	2,164
Construction	5,585	2,756	563	319	517
Chemicals and Fertilizers	(1,776)	5,479	6,715	658	34
Marine	2,784	3,159	2,997	2,827	1,671
Investments	1,345	2,437	1,591	2,482	1,466
	<u>\$ 55,701</u>	<u>\$ 47,156</u>	<u>\$ 35,074</u>	<u>\$ 25,029</u>	<u>\$ 15,119</u>

Building Materials

Western Canada. The Company produces throughout Western Canada a wide variety of building materials and supplies, including pre-cast and pre-stressed structural and architectural concrete products (which are generally installed by the Company), concrete pipe and block, ready-mix concrete, gypsum walboard and masonry supplies. The Company also produces sand, gravel and aggregates from numerous pits and quarries. Approximately 90% of the Company's production is sold to third-party customers in Manitoba, Saskatchewan, Alberta and British Columbia and the balance is used within other operations of the Company.

The major part of the Company's cement requirements are supplied by the Company's own cement production facilities. The Company's pits and quarries are believed to contain reserves sufficient to fulfil the Company's requirements at present levels of consumption for more than 20 years.

Eastern Canada. The Company's Eastern Canada operations are mainly in Quebec where it is a major producer of a variety of building materials and supplies, including concrete block and pipe, ready-mix concrete, asphalt, sand and aggregates. Cement requirements are supplied entirely from the Company's Montreal cement plant where the Company also operates its quarry, a concrete block and pipe plant, five ready-mix concrete batching plants, two asphalt plants and maintenance and storage garages for mobile equipment. Reserves of aggregates are believed to be sufficient for the Company's requirements at present levels of consumption for more than 15 years.

Cement

The Company is the third largest manufacturer of cement in Canada, producing and marketing a full range including normal portland, high early strength, sulphate resistant, oil well, masonry and specialty cements.

Western Canada. The Company is one of the two major producers of cement in Western Canada. Approximately one-third of the Company's production of cement in Western Canada is used in other operations of the Company, and the balance is sold to over 2,600 customers.

The principal raw materials in cement manufacture are limestone, clay (or shale) and gypsum. The Company owns and operates limestone quarries in Manitoba, Alberta and British Columbia which supply the requirements of the Regina, Edmonton and Bamberton plants. The limestone requirements for its Winnipeg plant are presently purchased but the Company holds long-term leases on limestone deposits in Manitoba to meet future requirements of this plant. Limestone is hauled by rail from the quarries which supply the Winnipeg, Edmonton and Regina plants and by Company trucks for the Bamberton plant which is near its quarry. Clay for the Edmonton, Regina

and Winnipeg plants is supplied from lands owned by the Company at the site of each plant and the Company's Bamberton plant is supplied with shale from a quarry owned by the Company. Considering both Company owned or leased raw material reserves and purchase opportunities available on the open market, these materials are believed to be in sufficient supply to satisfy production requirements, assuming operation at present capacity, for more than 20 years.

The Company is constructing a new cement plant on Tilbury Island near Vancouver with a presently estimated cost of \$103,000,000. The new plant, scheduled for completion in 1978, will have an annual capacity of 1,100,000 tons and will replace the Company's facilities at Bamberton. The Company has entered into supply contracts covering the principal raw material required for the operation of this plant. The Company has also entered into a long-term contract covering the delivery through 1988 of clinker from the new cement plant. The Company also has long-term contracts covering the delivery through 1988 of cement from its present facilities and the new cement plant to points in the States of Washington and Alaska. The contracts in both cases provide for minimum and maximum quantities; however, actual quantities delivered annually may vary depending on the needs of the purchasers and the Company's then available capacity.

An expenditure of \$16,000,000 has also been approved for additions to the Company's cement plant at Edmonton.

Eastern Canada. The Company manufactures cement at its plant in Montreal on a 450-acre site. The plant has two dry-process kilns with an annual rated capacity of 1,050,000 tons. The rated capacity of the Company's plant is normally affected to the extent of 10% to 15% because of seasonal demand and other factors such as storage and grinding facilities and downtime plant maintenance. During the last five years the plant has operated at near normal capacity after giving effect to the above-mentioned factors.

Approximately 30% of the Company's cement production in Eastern Canada is used in the Company's building material and construction operations and the balance is sold both in the Canadian and U.S. markets.

The Company's limestone and shale requirements for its Montreal cement plant are mined in its quarry located at the side of the cement plant, which has proven reserves believed to be sufficient to satisfy its production requirements for more than 15 years assuming operations at present capacity. Commercial land fill operations are being conducted in the fully exploited portion of the quarry using refuse from a number of municipalities.

Housing and Land Development

Canada. The Company is engaged in land development activities in Canada, mainly in Montreal, Southwestern Ontario, Winnipeg, Calgary, Edmonton and Vancouver. Tracts of unimproved land are assembled and improved by installing sewers, water mains, streets, sidewalks and other improvements.

The Company builds and sells houses under the names "Engineered Homes" and "Keith Homes" in several urban centres of Western Canada and in Southwestern Ontario. Abbey Glen also builds and sells houses under its own name in Quebec. Single family, duplex or townhouse units are built in a variety of styles and plans for sale in a wide price range. Major divisional offices and staff are maintained at Vancouver, Edmonton, Calgary, Winnipeg and Toronto, and branch offices are located in some smaller centres.

A substantial part of the Company's residential dwellings is constructed using pre-assembled sections and component packages designed and manufactured by the Company in Calgary. The major part of the plant's production is used by the Company and the balance is sold as factory packages to builders in small centres who erect and market the Company's product. The Company also contracts to erect single and multiple family dwellings in newly developing and often isolated areas of Northern Canada. The Company owns and operates a plant in Woodstock, Ontario which produces factory-built modular housing units all of which are sold to other residential builders. The Company also owns and operates a factory in Calgary which manufactures kitchen cabinets sold to other builders and suppliers and used in the Company's own operations.

United States. The Company is a major house builder in California and sells homes under the name "Broadmoor Homes". The Company also holds 3,200 acres of unimproved land in the Eastern United States for future development and for sale to other developers and is engaged in California and other Western States in the development and sale of shopping centre properties, which range in size from five to eighty acres. These properties are

normally developed under arrangements whereby they are substantially financed, leased and sold prior to purchase of the land and commencement of construction. The Company also participates in the development of single family residential communities and recreational land through joint ventures managed by others.

Construction

The Company's construction business includes site preparation and construction of hydro-electric power installations, airports, bridges, dams, highways, reservoirs, pumping stations, concrete and asphalt pavement and sewer and water installations. Heavy construction business is obtained largely through competitive bidding and is performed for federal, provincial and local authorities, with a lesser amount for the private sector. Substantially all of the Company's construction contracts are of the lump sum or unit price types. The Company's construction work is normally done with its own personnel and equipment.

Chemicals and Fertilizers

The Company manufactures chemicals, fertilizer materials and mixed fertilizers for distribution primarily in Ontario, Quebec, New Brunswick, Prince Edward Island, Nova Scotia and the States of Maine, New York and Vermont. Chemicals are also purchased for resale in the Eastern United States.

Industrial chemicals and nitrogen-based chemicals are produced at the Company's plant located on a 369-acre site at Maitland, Ontario, which provides ample space for future expansion. The plant's approximate annual capacities (including ammonium nitrate and nitric acid from recently completed plant expansions) are 90,000 tons of ammonia, 170,000 tons of ammonium nitrate, 85,000 tons of nitrogen solution, 345,000 tons of nitric acid, 50,000 tons of urea and varying amounts of industrial gases.

The Company presently sells approximately 15% of its Maitland production under a contract with Du Pont of Canada Limited which expires in 1985 and covers the sale of hydrogen, nitrogen, nitric acid and ammonium nitrate. A new contract with Du Pont has been negotiated for the supply of additional nitric acid to December 1985 from the expanded nitric acid capacity.

Approximately 10% of the Maitland plant's production is used by the Company's fertilizer operations. The remainder of the plant's production is sold to customers in the chemical, steel, resin, textile and explosives, pulp and paper and feed industries and to other fertilizer manufacturers.

The Company is one of four major producers of fertilizer in Eastern Canada and markets a variety of mixed fertilizers, mainly under the trade name "Nutrite", manufactured at 14 plants in Eastern Canada, one in Maine, and one in Vermont. Fertilizer materials, other than those obtained from the Maitland plant, are obtained from various suppliers.

The Company also has a 66% equity interest in an explosives plant in Minnesota with an annual capacity of 60,000,000 lbs.

Marine

The Company's marine activities operating out of the west coast have a combined fleet of 42 tugs and 224 barges providing the specialized equipment required to meet the varied needs of customers. The major portion of the revenue from these operations is derived from the transportation, along the west coast of Canada and between Canada and the northwest United States, of a wide variety of products such as wood chips, lime rock, petroleum products, chemicals, logs, lumber and packaged freight. These activities also include the operation of rail car barges and terminals between major railroads in British Columbia and the northwest United States; marine salvage in the Pacific Ocean; the operation of self-propelled rail barges, tow barges and tugs on the west coast; participation in joint ventures to move construction materials and heavy equipment by tug and barge to the Canadian Arctic and Alaska, and tug and barge services to oil drilling and pipe laying operations in the North Sea and other parts of the world. The Company through another joint venture is presently providing lighterage and unloading services in Saudi Arabian ports and also has commenced "roll-on-roll-off" barge transportation between the ports of Marseilles, France and Yanbu, Saudi Arabia.

The Company is also engaged in ship-building and ship repairing facilities in North Vancouver.

In Eastern Canada the Company's fleet of eight tugs and six barges provides docking services in the Port of Montreal and engages in marine towing, salvage and pollution control on the St. Lawrence River, the Eastern Seaboard and the Great Lakes.

Investments

The Company is also engaged in the import into the United States mainly of primary and semi-finished metals for sale to distributors and end-users and in the export of industrial products from the United States. The Company's import and export operations are primarily of a trading nature with profit margins limited in many cases by contract to the equivalent of an agency commission.

The income property operations of the Company obtained as a result of the acquisition of Abbey Glen in July 1976 consist of the operation of residential, commercial and shopping centre properties by the Company itself and with partners. The Company operates and manages most of these properties for rental income once complete although on occasion it has sold such properties to other investors. A major portion of the residential properties was sold in February 1977. Commercial buildings include five major office buildings with or without retail complexes in Regina, Calgary, Toronto and Montreal. The Company also holds an interest in hotel properties located in Edmonton, Calgary and Quebec City and shopping centre properties located in Edmonton and Medicine Hat.

The venture capital operation of the Company provides capital to small business concerns principally in the Western United States. Emphasis has been placed on equity investments in technology-oriented new companies involving a high degree of risk. At December 31, 1976, the Company held venture capital investments, all of which are minority positions in 37 different companies. These include investments in the areas of semi-conductor production equipment, digital measurement and control systems and computer peripheral equipment. Investments are made, normally for at least five years, with the objective of creating and building well-established companies and of disposing of all or part of the Company's investments to realize profits.

In 1976, the Company sold its steel warehousing, steel fabricating and distribution facilities in Texas.

Competition and Other Factors

All of the principal operations of the Company are subject to vigorous competition. The cement, chemical and fertilizer operations compete with major producers and distributors in their respective industries and the building materials and supply business and the housing and land development operations face competition from several major corporations and from numerous smaller competitors. Construction contracts are normally awarded through the competitive bidding process and, except for consortia on major projects awarded on a negotiated basis, the Company competes with many others for these contracts. In its marine transportation operations the Company faces competition both from other transportation companies and industrial enterprises transporting their own products.

Legislation

Pursuant to an application under the Foreign Investment Review Act (Canada) (the "Act"), the Company received a ruling, in May, 1976, that it is not a non-eligible person under the Act. This ruling is valid for a period of two years from the date of its issuance assuming that the circumstances outlined in the Company's application do not change significantly. In the event that the Company's status under the Act should become that of a non-eligible person it may be required to obtain approval under the Act for future acquisitions of certain "Canadian business enterprise", whether through purchases of shares or assets and for the establishment of certain new Canadian businesses.

During the past years, the Government of certain provinces have passed or have announced their intention to propose certain legislation which in varying degrees affect the rights of corporations to acquire and develop land. The effect on the business of the Company of such actual legislation and the proposed legislation, if enacted, cannot be presently determined.

The Federal Anti-Inflation Act and the regulations thereunder which restrain increases in prices and profit margins of certain suppliers of commodities and services, increases in compensation of employees of such suppliers and the amount of dividends payable by corporations to their shareholders apply to the Company and its Canadian subsidiaries.

Environmental Matters

The Company believes it is operating within current environmental standards and is involved in a continuing program to meet and anticipate such standards.

Employee Relations

The Company employs approximately 12,422 persons during the summer season and approximately 8,528 during winter. Approximately 84% of the Company's hourly-paid employees; in over 100 bargaining units, are governed by 80 separate union contracts, 57 of which are subject to renegotiation during 1977. The Company's Quebec construction employees are covered by a government construction industry decree which contains the major items included in a labour agreement. In recent years unsettled labour conditions in, or affecting, some of the industries in which the Company is involved have resulted in interruptions of operations from time to time.

Plants and Properties of the Company

The principal plants and properties of the Company are as follows:

	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Other	Total
Building Materials and Construction								
Concrete ready-mix plants (1)	10	1	5	3	6	8	—	33
Concrete pipe plants (2)	1	—	1	1	4	2	—	9
Concrete block plants (3)	1	—	1	1	3	3	—	9
Aggregate plants (3)	1	—	3	3	5	9	—	21
Gypsum wallboard plants	—	—	—	1	1	1	—	3
Alphalt plants	2	—	1	1	2	1	—	7
Pre-cast and pre-stressed concrete plants ...	—	—	1	2	3	1	—	7
Construction equipment and maintenance shops	1	—	1	—	2	1	—	5
Pits and quarries	4	1	3	3	5	8	—	24
Cement								
Cement plants	1	—	1	1	1	1	—	5
Limestone quarries	1	—	1	—	1	2	—	5
Distribution centres	1	2	—	1	1	1	4	10
Housing								
Home component factory	—	1	—	—	1	—	—	2
Cabinet factory	—	—	—	—	1	—	—	1
Chemicals and Fertilizers								
Chemical plant	—	1	—	—	—	—	—	1
Mixed fertilizer plants	5	6	—	—	—	—	5	16
Marine								
Shipyards and operations centre	1	—	—	—	—	3	—	4

Note: (1) Including two held under leases. (2) Including one held under lease. (3) Including two held under leases.

The Company owns more than 5,600 pieces of mobile equipment including power shovels, tractors, trucks, ready-mix concrete units, cranes, loaders, scrapers, bulldozers, draglines, rock wagons and earth-moving and paving equipment. The foregoing properties and mobile equipment were carried in the consolidated accounts of the Company at a net book value of \$332 million at December 31, 1976.

E: Business of Abbey Glen as at July 28, 1976 (the date of acquisition)

Abbey Glen and its subsidiaries, unless the context otherwise indicates, shall be referred to in the business description as "Abbey Glen".

Abbey Glen develops income producing properties by itself and with partners. It operates and manages most of these properties once completed although on occasion it may sell the property to an investor at a later date. Abbey Glen also assembles land; agricultural land for later housing, commercial land for industrial development, and inner-city land on which income properties are located but which may be redeveloped at a later date. The land assembly operations of Abbey Glen are presently being integrated with that of Genstar's.

Abbey Glen was formed in 1974 through an amalgamation of Great Northern Capital Corporation Limited and Western Realty Projects Ltd. Abbey Glen's head office is in Toronto and has operations in both eastern and western Canada as well as Florida and New Jersey. Abbey Glen, prior to acquisition by Genstar, was controlled by Capital and Counties Property Limited, an English company, which owned 62.3% (7,326,099 shares) of the outstanding common shares.

Income Producing Properties

Abbey Glen has an extensive portfolio of income producing properties located in central and western Canada including apartment, office and commercial buildings, hotel, shopping centres and industrial parks. A summary of the major operating income properties held at the date of acquisition is set forth in the table below.

<u>Type of Property</u>	<u>No. of Square Feet</u>	<u>No. of Buildings</u>
Residential ⁽¹⁾	4,133,000	16
Commercial	1,922,000	17
Hotels	631,000	3
Shopping Centres	2,327,000	11

During 1975 and 1976 Abbey Glen completed an extensive development program of its income properties and, as a result, approximately \$58 million in income properties were brought to completion.

(1) On February 4, 1977 Abbey Glen announced the sale of 14 residential buildings comprising 3,665,000 square feet for \$59 million.

Land

The net interest of Abbey Glen in land held at the date of acquisition (July 28, 1976) for development aggregated 17,792 acres. Approximately 50% of Abbey Glen's residential development land is located in western Canada, 30% in eastern Canada and 20% in the United States.

Land held for development is available for sale to developers in the housing, multi-unit residential, and commercial property development business. A summary of the major holdings is set forth in the table below:

<u>Location</u>	<u>Total Acreage</u>
Northern Alberta	5,442
Southern Alberta	4,190
British Columbia	859
Saskatchewan and Manitoba	154
Ontario	3,404
Quebec	374
United States	3,369
TOTAL LAND	<u>17,792</u>

Manufacturing

Abbey Glen owns and operates a plant in Woodstock, Ontario, which produces factory built modular housing units. The factory's production is approximately 700 units per year.

Joint Ventures and Affiliates

Abbey Glen is involved in several joint ventures where 50% or less of the venture is owned by Abbey Glen. The most significant is an investment in United Management Ltd., Calgary. Its assets include a number of commercial properties mainly in Calgary which are being held for redevelopment of the land on which the present buildings are situated. United Management also owns about 900 acres of agricultural land on the outskirts of Calgary.

Competition and Other Factors

Abbey Glen competes with numerous land developers and owners of income producing property in all areas where its business is carried on.

SCHEDULE "A"

To Exhibit "D"

ABBEY GLEN PROPERTY CORPORATION AND ITS SUBSIDIARY COMPANIES

(Incorporated under the laws of Ontario)

CONSOLIDATED STATEMENTS OF EARNINGS

For the Years ended March 31
(thousands of Canadian dollars)

	Note Reference	1976	1975	1974 (unaudited) (note 21)
Revenue:				
Rentals from income properties		\$ 22,789	\$ 17,856	\$ 12,308
Sales of income properties		21,160	20,976	5,002
Land sales		53,378	50,839	40,562
Manufacturing		4,416	12,355	12,284
Interest and other income		<u>6,004</u>	<u>5,039</u>	<u>4,235</u>
		<u>107,747</u>	<u>107,065</u>	<u>74,391</u>
Expenses:				
Operating cost of income properties		11,440	8,762	5,796
Cost of sales of income properties	2	18,071	16,059	4,133
Cost of land sales	4	35,842	36,302	26,773
Manufacturing costs		4,607	11,375	11,312
Interest	12	14,355	10,838	8,301
General and administrative	13	<u>8,756</u>	<u>6,948</u>	<u>6,232</u>
		<u>93,071</u>	<u>90,284</u>	<u>62,547</u>
Earnings before income taxes and extraordinary items ...		14,676	16,781	11,844
Income taxes	14	<u>6,400</u>	<u>7,465</u>	<u>5,823</u>
Earnings before extraordinary items		8,276	9,316	6,021
Extraordinary items, net	15	<u>55</u>		
Net earnings for the year	16	<u>\$ 8,331</u>	<u>\$ 9,316</u>	<u>\$ 6,021</u>
Net earnings per common share				
— Basic		\$0.71	\$0.79	\$0.51
— Fully diluted		<u>0.67</u>	<u>0.75</u>	<u>0.50</u>

[illegible]

Note
Reference

LIABILITIES AND SHAREHOLDERS' EQUITY

Bank indebtedness:

On income properties		
Operating		\$ 28,479
Under development		8,696
On land		4,269
General		44,856
Total bank indebtedness	8	86,300
Accounts payable and accrued	9	18,391
Deferred income taxes		23,661
		42,052

Long-term debt:

On operating income properties		100,628
On land		65,377
General		17,718
Total long-term debt	10	183,723
Total liabilities		312,075

Shareholders' equity:

Capital stock	11	17,948
Retained earnings		57,563
Total shareholders' equity		75,511
		\$387,586

**ABBEY GLEN PROPERTY CORPORATION
AND ITS SUBSIDIARY COMPANIES**
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the Years ended March 31
(thousands of Canadian dollars)

	<u>1976</u>	<u>1975</u>	<u>1974</u> (unaudited) (Note 21)
Balance, beginning of year	\$ 52,165	\$ 44,609	\$ 40,152
Add net earnings for the year	<u>8,331</u>	<u>9,316</u>	<u>6,021</u>
	60,496	53,925	46,173
Deduct: dividends	2,933	1,760	876
amalgamation expenses	<u>—</u>	<u>—</u>	688
Balance, end of year	<u>\$ 57,563</u>	<u>\$ 52,165</u>	<u>\$ 44,609</u>

**ABBEEY GLEN PROPERTY CORPORATION
AND ITS SUBSIDIARY COMPANIES**
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years ended March 31
(thousands of Canadian dollars)

	Note Reference	<u>1976</u>	<u>1975</u>
Funds were provided from:			
Operations			
Earnings before extraordinary items		\$ 8,276	\$ 9,316
Non-cash items deducted in arriving at earnings before extraordinary items			
Depreciation of operating income properties	2	2,133	1,459
Depreciation of fixed assets	7	444	657
Amortization of financing costs	7	134	50
Deferred income taxes	14	5,400	6,554
		<u>16,387</u>	<u>18,036</u>
Extraordinary earnings	15	55	—
Non-cash items deducted in arriving at extraordinary earnings			
Write-down of other investment	15	1,161	—
Deferred income taxes	15	(466)	—
		<u>750</u>	<u>—</u>
Real estate investments			
Income properties			
Investment cost recovered on sales	2	18,071	16,059
Less debt discharged — bank loans	8	(3,250)	—
— long-term debt	10	(8,368)	(9,949)
		<u>6,453</u>	<u>6,110</u>
Land			
Investment cost recovered on sales	4	35,842	36,302
Less debt discharged — long-term debt	10	(9,131)	(4,494)
		<u>26,711</u>	<u>31,808</u>
Affiliated companies			
Dividends received	5	298	39
Collections of advances receivable		1,889	524
		<u>2,187</u>	<u>563</u>
Decrease in receivables		<u>1,770</u>	<u>—</u>
Other assets			
Disposition of industrial assets			
Manufacturing inventories	7	1,336	—
Fixed assets	7	3,356	—
Decrease in all other assets		1,672	—
		<u>6,364</u>	<u>—</u>
Capital stock issued		9	—
Total Funds provided		<u>\$ 60,631</u>	<u>\$ 56,517</u>

	Note Reference	1976	1975
Funds were used for:			
Real estate investments			
Income properties			
Acquisitions	2	\$ —	\$ 10,048
Development costs	3	<u>16,325</u>	<u>47,642</u>
		16,325	57,690
Less net proceeds from specific financing			
Bank loans received	8	(21,571)	(21,317)
Bank loans repaid	8	3,690	12,999
Long-term debt received	10	<u>(4,383)</u>	<u>(29,596)</u>
		<u>(5,939)</u>	<u>19,776</u>
Land			
Acquisitions	4	18,045	26,360
Development costs	4	<u>31,155</u>	<u>32,569</u>
		49,200	58,929
Less net proceeds from specific financing			
Bank loans received	8	(2,653)	(3,256)
Bank loans repaid	8	2,607	
Long-term debt received	10	<u>(14,920)</u>	<u>(16,436)</u>
		<u>34,234</u>	<u>39,237</u>
Affiliated companies			
Reinvestment of earnings	5	<u>1,628</u>	<u>420</u>
Increase in receivables		<u>—</u>	<u>19,774</u>
Increase in other assets		<u>—</u>	<u>2,551</u>
Regular principal payment on long-term debt			
Income properties	10	2,026	926
Land	10	8,777	11,740
General	10	<u>500</u>	<u>514</u>
		11,303	13,180
Dividends		<u>2,933</u>	<u>1,760</u>
Total funds used		<u>\$ 44,159</u>	<u>\$ 96,698</u>
Reduction (increase) in general bank indebtedness and accounts payable		\$ 16,472	\$ (40,181)
General bank indebtedness and accounts payable, beginning of year		<u>79,719</u>	<u>39,538</u>
General bank indebtedness and accounts payable, end of year		<u>\$ 63,247</u>	<u>\$ 79,719</u>

**ABBAY GLEN PROPERTY CORPORATION
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1976**

1. Accounting Policies

General

The accounting policies followed by the Company are those that are generally accepted in Canada. Such policies are also in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies and with the recommendations of the Research Study on Accounting for Real Estate Development Operations published by the Canadian Institute of Chartered Accountants.

Basis of Consolidation and Statement Presentation

The consolidated financial statements include:

- (i) the accounts of the Company and all of its subsidiaries after giving effect to the elimination of intercompany transactions.
- (ii) the Company's proportionate share of the individual assets, liabilities, revenues and expenses of unincorporated joint ventures.
- (iii) the Company's investment in affiliated companies carried on the equity basis whereby the investment is initially recorded at cost and carrying amounts are adjusted to recognize the Company's share of after tax earnings or losses (included in interest and other income in the earnings statement) and reduced by dividends received.

Foreign Exchange Translation

U.S. dollar assets and liabilities of the Company and its subsidiaries are translated into Canadian dollars at current rates of exchange except for long-term debt which is translated at historic rates.

The exchange adjustment for the year, including the effect of translating fixed assets at current rates, is not significant and is included in general and administrative expenses.

Income Properties

Income properties are carried at cost less accumulated depreciation.

The carrying value of operating income properties includes the acquisition costs on purchases of completed properties and the costs transferred from income properties under development upon completion of development.

An income property under development is not considered complete until 70% of rental occupancy is achieved (subject to a maximum period of time based on the nature of each individual project). The Company capitalizes the following costs in arriving at the development cost of an income property:

- Land costs
- Land carrying costs
- Direct development and construction costs including leasing costs
- Interest on specific and general borrowings
- General and administrative expenses of development personnel attributable to projects
- Net rental losses or gains, while the property is under development

The Company records income property development costs only as incurred and does not follow a practice of reflecting the estimated cost to complete in the accounts. It is the Company's practice, however, to disclose this amount as a note to the financial statements.

Depreciation is recorded on operating income properties on the sinking fund basis. By this method, depreciation is charged to expense in an amount which increases annually, such amount consisting of a fixed annual sum together with interest compounded at the rate of 5% per annum, so as to fully depreciate the buildings over their estimated useful lives, not to exceed forty years.

Leasing costs are amortized over the terms of the leases.

Land

Land, other than land held for long-term development, is carried at the lower of cost and estimated realizable value. Land held for long-term development is carried at cost and is not written down unless the value of the land is permanently impaired. The excess, if any, of the carrying value over current market value is disclosed in the notes to the financial statements.

Cost of land includes:

- Land acquisition cost
- Land carrying costs
- Direct development expenditures
- Interest on specific and general borrowings
- General and administrative expenses of development personnel attributable to projects

Land sales are recognized and net income is recorded upon meeting a number of criteria including the following:

- (i) receipt of 15% in cash
- (ii) commencement of interest on a sale agreement at a reasonable rate
- (iii) satisfaction of purchaser's financial stability

The market value method is used in costing land sales. Under this method the cost of a portion of a parcel of land with multiple uses is determined by reference to the ratio of the estimated market value of the portion sold to the market value of the complete parcel. Included in the cost of sales are the estimated costs to complete any development work required subsequent to the sale.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. The Company's policies followed in depreciating fixed assets are as follows:

	<u>Basis</u>
Land improvements	Straight line over estimated useful life
Buildings	Straight line over estimated useful life
Machinery and equipment	Straight line over estimated useful life
Office equipment and furniture	20% declining balance

Financing Costs

Financing costs are included in other assets as deferred charges and are amortized to interest expense over the term of the financing.

Income Taxes

The income tax expenses (or recoveries) reflected in the earnings statement represent a combination of taxes currently payable and a provision for income taxes which the Company has been able to defer. Deferred income taxes are a result of claiming depreciation, provisions and other expenses for tax purposes in excess of amounts recorded in the accounts net of losses which are available to reduce future income taxes. The taxes which are not currently payable are calculated by applying current rates of tax and are credited to deferred income taxes payable.

Interest on General Borrowings

Interest on general borrowings, including bank indebtedness and long-term debt, is pro rated against the net investment remaining in each of the Company's assets after deducting specific liabilities and the investment of shareholders' equity in each asset.

For this purpose the investment of shareholders' equity is deemed to apply firstly to operating income properties, secondly to the investment in affiliated companies, thirdly to fixed assets, fourthly to the investment in Transair Limited and the balance is allocated pro rata to the remaining assets.

The interest on general borrowings attributable to income properties under development and to land is added to the carrying value of these assets, whereas the interest on general borrowings attributable to other assets is written off as interest expense in the period.

2. Income Properties Operating

000's omitted

Cost	\$168,015
Accumulated depreciation	6,143
Book value — March 31, 1976	<u>\$161,872</u>
Activity	
Book value — March 31, 1975	<u>\$123,857</u>
Add	
Cost of properties completed and transferred from income properties under development	58,219
	<u>58,219</u>
Deduct	
Book value of properties sold	17,071
Income properties for resale written down to market	1,000
Cost of sales of income properties	18,071
Depreciation charged	2,133
	<u>20,204</u>
Book value — March 31, 1976	<u>\$161,872</u>

3. Income Properties Under Development

000's omitted

Cost of properties under development — March 31, 1975	<u>\$ 55,449</u>
Add current development costs	
Direct development, construction and carrying costs	13,982
Capitalization of interest	2,372
Capitalization of general and administrative expenses	141
Net rental (gains) or losses	(170)
	<u>16,325</u>
Deduct cost of properties completed and transferred to operating	58,219
Cost of properties under development March 31, 1976	<u>\$ 13,555</u>

The estimated cost to complete the income property under development is approximately \$4,400,000.

4. Land

000's omitted

Balance March 31, 1975	<u>\$131,329</u>
Add costs incurred during year	
Acquisitions	18,045
Direct development and carrying costs	20,545
Capitalization of interest	9,728
Capitalization of general and administrative expenses	882
	<u>49,200</u>
Deduct	
Cost of land sold	35,342
Land for resale written down to market	500
Cost of land sales	<u>35,842</u>
Balance March 31, 1976	<u>\$144,687</u>

Included in the land holdings are properties with a book value of \$98,076,000 and an appraisal value of \$149,134,000 which have been identified for long-term development. In accordance with the Company's policy regarding land held for long-term development disclosed in Note 1, properties having a book value of \$15,805,000 and appraised values of \$11,797,000 have not been written down to current market values because in the opinion of management there has been no permanent impairment in the value of the investments.

The Company has invested \$3,194,000 in options on land which the Company intends to exercise. In order to exercise these options the Company must pay an additional \$236,000 in cash and assume long-term debt of \$17,290,000. It is anticipated that the long-term debt will be secured by mortgages on the land to be acquired and will bear interest at weighted average annual rates and will be repayable as to principal as follows:

Due in the Year Ended March 31	Weighted Average Annual Interest Rate	000's omitted		
		Regular Principal Payments	Lump Sum Payments at Maturity	Total
1977	7.28%	\$ 131	\$ 224	\$ 355
1978	7.17	363	—	363
1979	7.29	391	—	391
1980	7.29	408	—	408
1981	7.18	427	7,463	7,890
Subsequent to 1981	7.25	3,557	4,326	7,883
		<u>\$5,277</u>	<u>\$12,013</u>	<u>\$17,290</u>

5. Affiliated Companies

The investments in affiliated companies are as follows:

	000's omitted
Shares, at cost plus net equity increase	
March 31, 1975	\$ 2,769
Add share of after tax earnings	1,628
Deduct dividends	298
March 31, 1976	4,099
Advances payable	1,283
	<u>\$ 2,816</u>

The share of after tax earnings includes \$1,450,000 of earnings from the sales of income properties and undeveloped land.

6. Receivables

	000's omitted
Receivables consist of the following:	
Due from tenants	\$ 849
Land sale agreements and mortgages receivable	37,732
Advances re joint ventures	12,783
Manufacturing trade receivables	395
Mortgages receivable from officers (including advances during the year of \$170,000)	407
Other	3,994
	<u>\$ 56,160</u>

Receivables are due as follows:

Due in the Year Ended March 31	000's omitted
1977	\$ 25,607
1978	13,720
1979	3,187
1980	2,413
1981	1,679
Subsequent to 1981	<u>9,554</u>
	<u>\$ 56,160</u>

7. Other Assets

000's omitted

Other assets consist of:

Fixed assets, at cost

Land and land improvements	\$ 397
Buildings	2,559
Machinery and equipment	691
Office equipment and furniture	<u>1,928</u>
Less accumulated depreciation	<u>(1,317)</u>
	4,258
Investment in 608,482 shares of Transair Limited, representing a 20% interest, carried at cost less write-down of \$1,380,000. The quoted market value at March 31, 1976 was \$1,065,000	1,000
Manufacturing inventories at the lower of cost and estimated net realizable value	541
Deferred financing costs, less amounts amortized	1,051
Prepaid expenses and other	383
Cash	<u>1,263</u>
	<u>\$ 8,496</u>

During 1976 the Company acquired fixed assets at a cost of \$785,000 and disposed of fixed assets having a net book value of \$307,000.

During 1976 the Company charged depreciation on fixed assets of \$189,000 to manufacturing costs and \$255,000 to general and administrative expenses.

Deferred financing costs of \$134,000 were amortized and have been charged to interest expense.

8. Bank Indebtedness

Bank indebtedness on income properties operating and under development represents interim construction loans on specific income properties and is secured by those properties. These loans are to be repaid from the proceeds of long-term financings. The Company has negotiated the commitments for the long-term financing required to repay all but \$3,600,000 of its interim construction loans.

Bank indebtedness on land represents demand loans, secured by charges on specific land projects, which were arranged to either acquire or develop specific parcels of land. These loans are to be repaid from sale proceeds of the specific land involved.

General bank indebtedness represents non-specific bank loans which are on a demand basis and which are secured by specific assignments of receivables, specific charges on real estate and a general floating charge on all assets of the Company.

Bank indebtedness activity during the year consisted of the following:

	000's omitted				
	On Operating Income Properties	On Income Properties Under Development	On Land	General	Total
Bank indebtedness, March 31, 1975 . .	\$ 3,250	\$19,294	\$ 4,223	\$57,949	\$84,716
Add new loans	—	21,571	2,653	—	24,224
Transfer between categories	28,545	(28,545)	—	—	—
	<u>28,545</u>	<u>(6,974)</u>	<u>2,653</u>	<u>—</u>	<u>24,224</u>
Deduct:					
Specific loans repaid from sales	(3,250)	—	—	—	(3,250)
Loans repaid from long-term financings	—	(3,005)	—	—	(3,005)
General repayments	(66)	(619)	(2,607)	(13,093)	(16,385)
	<u>(3,316)</u>	<u>(3,624)</u>	<u>(2,607)</u>	<u>(13,093)</u>	<u>(22,640)</u>
Bank indebtedness, March 31, 1976 . .	<u>\$28,479</u>	<u>\$ 8,696</u>	<u>\$ 4,269</u>	<u>\$44,856</u>	<u>\$86,300</u>

9. Accounts Payable and Accrued

Accounts payable and accrued consist of:

	000's omitted
Construction payables on income properties under development	\$ 310
Land development payables	2,105
Estimated cost to complete development on land sold	3,379
Deposits on sales	902
Tenant deposits	1,163
Dividends payable	587
Minority interest	393
Trade creditors and accrued	7,772
Income taxes payable	1,780
	<u>\$ 18,391</u>

10. Long-Term Debt

The long-term debt activity during the year consisted of the following:

	000's omitted				
	On Operating Income Properties	On Income Properties Under Development	On Land	General	Total
Long-term debt, March 31, 1975	\$ 96,837	\$ 9,802	\$ 68,365	\$ 18,218	\$193,222
Add new loans	—	4,383	14,920	—	19,303
Transfer between categories	14,180	(14,180)	—	—	—
	<u>14,180</u>	<u>(9,797)</u>	<u>14,920</u>	<u>—</u>	<u>19,303</u>
Deduct:					
Mortgage repayments on sales	(8,368)	—	(9,131)	—	(17,499)
Normal repayments of principal	(2,021)	(5)	(8,777)	(500)	(11,303)
	<u>(10,389)</u>	<u>(5)</u>	<u>(17,908)</u>	<u>(500)</u>	<u>(28,802)</u>
Long-term debt, March 31, 1976	<u>\$100,628</u>	<u>\$ NIL</u>	<u>\$ 65,377</u>	<u>\$ 17,718</u>	<u>\$183,723</u>

Long-term debt on operating income properties is secured by mortgages which bear interest at weighted average annual rates and are repayable as to principal as follows:

Due in the Year Ended March 31	Weighted Average Annual Interest Rate	000's omitted		
		Regular Principal Payments	Lump Sum Payments at Maturity	Total
1977	8.86%	\$ 1,066	\$ 2,212	\$ 3,278
1978	8.72	1,068	204	1,272
1979	8.73	1,141	1,219	2,360
1980	8.67	1,111	7,025	8,136
1981	8.67	1,199	1,588	2,787
Subsequent to 1981	8.74	80,877	1,918	82,795
		<u>\$ 86,462</u>	<u>\$ 14,166</u>	<u>\$100,628</u>

Long-term debt on land is secured by mortgages which bear interest at weighted average annual rates and are repayable as to principal as follows:

Due in the Year Ended March 31	Weighted Average Annual Interest Rate	000's omitted		
		Regular Principal Payments	Lump Sum Payments at Maturity	Total
1977	8.89%	\$ 12,467	\$ 1,046	\$ 13,513
1978	8.91	7,265	2,994	10,259
1979	8.42	5,574	15,974	21,548
1980	7.40	3,786	312	4,098
1981	7.19	3,072	600	3,672
Subsequent to 1981	7.03	7,628	4,659	12,287
		<u>\$ 39,792</u>	<u>\$ 25,585</u>	<u>\$ 65,377</u>

Included in the long-term debt on real estate are U.S. dollar loans totalling U.S. \$23,991,000 which are secured by U.S. real estate assets.

General long-term debt consists of:

	000's omitted
5 ¹ / ₂ % notes due December 1, 1976 (\$600,000 U.S.)	\$ 627
9% Secured Debentures, maturing August 15, 1991, with sinking fund requirements of \$300,000 in each of the years 1976 to 1985 inclusive and \$700,000 in each of the years 1986 to 1990 inclusive	10,000
7 ³ / ₄ % Subordinated Convertible Sinking Fund Debentures, Series A, maturing June 15, 1989, with sinking fund requirements of \$200,000 in each of the years 1979 to 1988 inclusive	4,000
7 ³ / ₄ % Subordinated Convertible Sinking Fund Debentures, Series B, maturing October 15, 1989, with sinking fund requirements of 5% of the outstanding principal amount in each of the years 1979 to 1988 inclusive	3,091
Total	<u>\$ 17,718</u>

Principal payments on general long-term debt are due in the year-ended March 31, as follows:

	000's omitted
1977	\$ 927
1978	300
1979	300
1980	655
1981	655
Subsequent to 1981	14,881
	<u>\$ 17,718</u>

The 9% Secured Debentures are secured by a fixed mortgage, pledge and charge of and on property, first mortgages, cash and approved securities having at all times a security value at least equal to the principal amount of the debentures outstanding, and are also secured by a floating charge of and on the undertaking, property and assets of the Company.

The Series A, and B Subordinated Convertible Sinking Fund Debentures are secured by a floating charge on all the undertaking, property and assets of the Company and are subordinate to the 9% Secured Debentures and certain bank indebtedness. The Series A and B Subordinated Convertible Sinking Fund Debentures are convertible at the option of the holder at any time up to the close of business on June 15, 1979, and October 15, 1979 respectively, unless previously redeemed, into common shares of the Company at the rate of 100 shares per \$1,000 principal amount.

Under its various debt instruments the Company is prohibited from paying dividends in excess of certain prescribed limits. The most restrictive of these provisions prohibits future dividends in excess of 50% of its future Consolidated Net income (as defined).

11. Capital Stock

000's omitted

Authorized:

20,000,000 common shares without par value

Issued and fully paid:

11,735,019 common shares \$ 17,948

Capital stock issued during the year consisted of the following:

No. of
Shares

Shares issued at \$2.97 each on exercise of employee stock options 3,000

The Company has set aside 1,406,070 common shares for the following purposes:

For the conversion rights attaching to the 7³/₄% Subordinated Convertible Sinking Fund

Debentures 709,120

For the share purchase warrants 499,950

Each share purchase warrant entitles the holder to purchase one common share of the Company at any time until August 15, 1976, at a price of \$7.00 and thereafter until August 15, 1981, at a price of \$9.00.

For employee stock option plans (including 59,000 unallocated) 197,000

1,406,070

As at March 31, 1976 the Company has reserved 197,000 shares for the employee stock option plan of which 138,000 shares have been allocated to specific officers and 59,000 shares are eligible for allocation in future years. The allocated options are exercisable at \$2.97 per share at varying dates between April 1976 and October 1980, after which date all options will expire. During 1976 3,000 options were exercised, 30,000 were granted and 54,000 expired and were returned to the unallocated category.

12. Interest

000's omitted

	1976	1975
On bank indebtedness		
Income properties operating	\$ 858	\$ 14
Income properties under development	2,039	2,390
Land	448	477
General	5,314	3,552
On long-term debt		
Income properties operating	9,365	8,732
Income properties under development	141	686
Land	6,487	5,102
General	1,669	1,706
Amortization of financing costs	134	50
	<u>26,455</u>	<u>22,709</u>
Less amounts capitalized		
On income properties under development	2,372	4,436
On land	9,728	7,435
	<u>12,100</u>	<u>11,871</u>
Interest expense for the year	<u>\$ 14,355</u>	<u>\$ 10,838</u>

13. General and Administrative Expenses

	000's omitted	
	1976	1975
Gross general and administrative expenses	\$ 9,779	\$ 8,960
Less amounts capitalized		
On income properties under development	141	427
On land	882	1,585
	<u>1,023</u>	<u>2,012</u>
General and administrative expense for the year	<u>\$ 8,756</u>	<u>\$ 6,948</u>

14. Income Taxes

The Company has made provision for income taxes of \$6,400,000 (\$7,465,000 in 1975) calculated as follows:

	000's omitted			
	1976	1976	1975	1975
	Earnings	Income Tax	Earnings	Income Tax
Company's share of after tax earnings of affiliated companies	\$ 1,628	—	\$ 420	—
Provision for capital gains tax on income property sales	3,089	\$ 667	3,091	\$ 365
Provision for corporation income taxes on all other earnings	9,959	5,733	13,270	7,100
	<u>\$ 14,676</u>	<u>\$ 6,400</u>	<u>\$ 16,781</u>	<u>\$ 7,465</u>

Of this provision \$1,000,000 (\$911,000 in 1975) is current and \$5,400,000 (\$6,554,000 in 1975) is deferred.

15. Extraordinary Items

	000's omitted
Net gain of \$1,103,000 on sales of the assets of brick and concrete manufacturing operations, less current income taxes of \$353,000 and income tax credits of \$147,000	\$897
\$1,161,000 write-down of investment in Transair shares less income tax credits of \$319,000	(842)
	<u>\$ 55</u>

16. Earnings per Share

(before and after extraordinary items)

	1976	1975
Basic net earnings per share	\$ 0.71	\$ 0.79
Fully diluted net earnings per share	\$ 0.67	\$ 0.75

Basic net earnings per share has been calculated by dividing the net earnings by the weighted average number of shares outstanding during the year.

Fully diluted net earnings per share has been calculated by adding \$470,000 of imputed earnings to the net earnings and dividing that amount by the share base that results after giving effect to the following:

	1976	1975
Weighted average number of shares outstanding	11,733,019	11,732,019
Shares issuable on conversion of 7 ³ / ₄ % Subordinated Convertible		
Sinking Fund Debentures	709,120	709,120
Shares issuable at \$7.00 per share on exercise of share purchase warrants	499,950	499,950
Shares issuable on exercise of employee stock options at a price of \$2.97	138,000	165,000
	<u>13,080,089</u>	<u>13,106,089</u>

The imputed earnings shown above are the interest savings less income tax effects that would result if the dilutive conversions took place on April 1 of each year. The imputed earnings represent the interest savings on conversion of the 7³/₄% Subordinated Convertible Sinking Fund Debentures and imputed earnings on cash which would be received on exercising the share purchase warrants and employee stock options at 10%.

17. Remuneration of Directors and Senior Officers

The total remuneration paid or payable by the Company and its subsidiaries to its directors and senior officers with respect to the year ended March 31, 1976 amounted to \$1,400,000.

18. Contingent Liabilities

(a) The Company is contingently liable for its joint venture partners' portion of the liabilities of joint ventures. The amount of this contingent liability as at March 31, 1976 is approximately \$29,954,000 against which the Company would have claims on the joint ventures' related assets.

(b) As at March 31, 1976 the Company is contingently liable for discounted sale agreements in the approximate amount of \$6,121,000.

(c) The Company is contingently liable under letters of credit and other guarantees totalling approximately \$2,887,000.

(d) The Company is the defendant in certain litigation totaling approximately \$3,000,000. The Company has denied liability in these actions and in some instances has served counter-claims.

In addition the Company is the plaintiff and the defendant against a counterclaim in litigation arising out of a disputed land purchase and development agreement. The land and other costs incurred to date, amounting to approximately \$2,300,000, have been included under land costs.

In the opinion of management, based in part upon discussions with counsel, these actions will be resolved satisfactorily and will not have a material adverse effect on the Company's financial position.

19. Other Commitments

The Company has entered into certain financing arrangements under which options have been granted to the lenders to purchase a 50% interest in specific projects at prices which approximate book values. The book value of these projects at March 31, 1976 is \$17,351,000.

20. Anti-Inflation

As a result of Anti-Inflation Guidelines the Company is prohibited, except by special ruling, from paying dividends in excess of \$0.20 per share for the year ending October 13, 1976, of which \$0.10 per share was declared prior to March 31, 1976.

21. Predecessor Companies

The Company was formed effective March 31, 1974 by the amalgamation of Great Northern Capital Corporation Limited and Western Realty Projects Ltd., both public real estate companies. On amalgamation the following share exchange occurred:

Predecessor Companies	Number of Shares Outstanding Prior to Amalgamation	Share Exchange Ratios	Abbey Glen Property Corporation Shares Issued	Recorded Value of Shares
Great Northern Capital Corporation Limited	3,518,545	1.5 to 1	5,277,817	\$14,185,000
Western Realty Projects Ltd.	6,454,139	1 to 1	6,454,139	3,754,000
			<u>11,731,956</u>	<u>\$17,939,000</u>

Since both Great Northern Capital and Western Realty were controlled by the same shareholder, the amalgamation was accounted for on the pooling of interests method, details of which are summarized as follows:

	Great Northern Capital Corporation Limited	Western Realty Projects Ltd.	Abbey Glen Property Corporation
Assets	<u>\$146,665,000</u>	<u>\$157,600,000</u>	<u>\$304,265,000</u>
Liabilities	\$106,513,000	\$135,204,000	\$241,717,000
Shareholders' equity:			
Capital stock	14,185,000	3,754,000	17,939,000
Retained earnings	<u>25,967,000</u>	<u>18,642,000</u>	<u>44,609,000</u>
	<u>\$146,665,000</u>	<u>\$157,600,000</u>	<u>\$304,265,000</u>

The statements of earnings and retained earnings for the year ended March 31, 1974 reflect combined amounts of the predecessor companies restated to place them on a common accounting basis. Because the year-end of Abbey Glen (March 31) is different from that of the predecessor companies (December 31), the net earnings and retained earnings for the year ended March 31, 1974 were determined by reference to audited financial statements covering the restated fifteen months ending March 31, 1974 less the restated unaudited results for the three months ended March 31, 1973. The accounts of Great Northern Capital Corporation Limited at December 31, 1972 and 1973 were examined by Clarkson, Gordon & Co. The accounts of Western Realty Projects Ltd. at December 31, 1972 and 1973 were examined by other independent auditors.

AUDITORS' REPORT

To the Directors of
Abbey Glen Property Corporation:

We have examined the consolidated balance sheet of Abbey Glen Property Corporation as at March 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1976 and the results of its operations and the changes in its financial position for the two years then ended in accordance with accounting principles generally accepted in Canada applied on a consistent basis.

Toronto, Canada
May 18, 1976

(Signed) "Clarkson, Gordon & Co."
Chartered Accountants





GENSTAR

Presentation by
ANGUS A. MacNAUGHTON
Vice Chairman of the Board

and
ROSS J. TURNER
President

GENSTAR LIMITED

to the
NEW YORK SOCIETY OF SECURITY ANALYSTS
New York, 10 November 1977



Angus A. MacNaughton
Vice Chairman of the Board and
Chief Executive Officer



Ross J. Turner
President and
Chief Executive Officer

With the compliments of

Justin Battle



GENSTAR

1 Place Ville Marie, Montreal

Ladies and Gentlemen:

A number of recent developments, both inside and outside the company, point the direction Genstar will be taking in the future. Among these are:

- The U.S.-Canada agreement to proceed with construction of the \$10 billion, 2,700-mile Alcan natural gas pipeline.
- Our recognition that Genstar's Canadian operations have matured to the point where our future expansion will be substantially in the United States.
- The integration and rationalization of a major real estate company we acquired in 1976, and the sale of a large part of the real estate assets of this company, and
- The divestment of a number of businesses which have freed up cash for more profitable investment.

By the end of this year we expect sales to be approximately one billion dollars. We are forecasting net income of over \$60 million and earnings per share of about \$5.00.

That's where we stand today. But to set the scene for a discussion of Genstar's future, we would like to take just a few minutes to review our operations and our performance to date.

Genstar took its present form as a diversified operating company in 1965 with the amalgamation of the three business areas we were active in at that time. The statistics covering the first full 10-year period of our history are available in our 1975 Annual Report, but we have chosen the latest five-year period to the end of 1976 for illustration purposes because the businesses we are presently engaged in have remained constant during this period.

Operations

The following table shows the businesses we are in today and the contribution of each industrial group to overall revenues and net income for 1976.

Contributions to 1976:

	Revenues	Net Income
	(Percent)	
Building Materials	23	24
Cement	13	20
Housing & Land Development	26	42
Construction	16	10
Marine	6	5
Chemicals & Fertilizers	7	(3)
Investments	9	2
	100	100

What to an outsider may appear to be a mixed bag of businesses — cement, building materials, land development, house building and construction — are seen by us from a management viewpoint as a single, vertically integrated capability, allowing us to bid on major domestic and international construction projects which we can not only plan and manage, but for which we can supply some of the materials and services as well. Genstar is, to our knowledge, the most integrated housebuilder in the world.

From this point of view, our marine transportation activity is also part of this capability whether the project be in the Northern areas of the continent, the Middle East or elsewhere in the world.

We will return to this subject a bit later on, but we would now like to give you a brief view of our businesses, where they are located and what we see in the future for each.

Housing and Land Development

Despite the fact that our share of the total Canadian housing market of 250,000 is only about one per cent, we are probably the largest builder of single family houses in the country — and the largest land developer, certainly in Western Canada.

Our traditional markets have been the four Western provinces — Alberta, Manitoba, British Columbia and Saskatchewan, in order of sales volume. We recently moved into Ontario, Canada's largest provincial

market. Our entry into this market will be limited, however, until the economy of the province picks up a bit more steam.

Our strategy has been to select our housing markets carefully and to develop them at a pace consistent with the growth we see available. But we are not married to any specific geographic market. We want to be flexible enough to move our investments to the markets with the best long-term potential.

Alberta has always been the largest and most active of our markets and will continue to be so for many years yet. The discovery of oil at Leduc in 1947 signalled the beginning of a boom in this province which — with only minor downturns — is still continuing and will be fuelled even further by the massive amounts of money which will pour into the province for construction of the Alcan natural gas pipeline, construction of oil recovery plants in the Athabasca Tar Sands and other related resource development projects. And that is why the bulk of our land bank is in Alberta, not only to supply our requirements for building lots over the next five years but also to allow us to take advantage of the boom in housing which will go hand-in-hand with the pipeline construction.

Manitoba has been a steady market over the years and, while we do not foresee any spectacular development there, we are satisfied that market growth in that province will continue at a steady pace.

Saskatchewan is a market we have re-entered only recently after an absence of many years. We expect some growth in this market, more so than in Manitoba, because Saskatchewan will benefit too, from construction of the Alcan pipeline.

British Columbia has been a very slow market over the past several years, but it is a resource rich province and we expect to be there when the economy picks up again — and that impetus will likely result from the gas pipeline construction. The growth in population in British Columbia will continue well above the Canadian average because it has the same sort of attractions for Canadians that California has for Americans, including a more temperate climate.

We took our first serious look at California in 1968 and determined to enter the housing market there

based on forecast growth statistics, the general economy of the state and the fact that the population of California is roughly equal to that of Canada as a whole.

This entry into California was made through the acquisition of Sutter Hill Limited in 1970. Sutter Hill was in the business of developing shopping center properties for sale to third parties. Then in 1973 we acquired Broadmoor Homes in Orange County, because we had found in our study of the California market that Orange County had the largest potential for long-term growth. When we acquired Broadmoor, their annual sales were about 250 units a year. This year, however, they will sell about 1,000 units. Broadmoor now has projects in six counties in both Southern and Northern California including a number of projects in the San Francisco Bay area.

While Sutter Hill has continued to develop shopping center projects in Nevada and Oregon as well as in California, it has also entered a number of joint-venture housing projects.

Our philosophy is to build quality homes, as in our multi-award winning Whaler's Cove project in Foster City in the San Francisco Bay area; to maintain only a moderate land bank which will not result in heavy carrying costs in any slowdown in the market; and to apply strict cost controls on all aspects of project development.

As we saw in an earlier table, our housing and land development operations accounted for 42 per cent of net income in 1976. This contribution has varied over the past several years and may not be as significant in the future as other operations develop and mature, but it is a reflection of the strong markets we operate in and the strength of this division as a whole.

Building Materials

In terms of contribution to net income, our building materials division is next in importance to housing and land development. These operations are located in Western Canada and to a minor extent in the Montreal region of Quebec. Products include sand, gravel, classified and lightweight aggregates, ready-mix concrete, concrete blocks, bricks, pipe, prestressed concrete structural and architectural components, concrete railway ties, and gypsum wallboard.

Many of these products are used in our own house building and construction operations. Markets for these products have been strong again in Western Canada this year.

Outside of our traditional markets, opportunities for further growth are again related to pipeline construction and other resource development projects. Our prestressed concrete division has experienced good markets over the past several years and the new emphasis on such products as hollow core flooring sections for office, commercial and residential buildings and the development of standard bridge components which drastically reduce time and cost in bridging rivers in the northern parts of the continent to provide road access to resources, will be an important factor in our success in bidding on major contracts.

We have worked hard for many years to gain acceptance for precast construction of office, apartment and commercial buildings in competition against steel and these efforts have succeeded to the extent that this form of construction is not only normal in Western Canada but a highly competitive form of construction.

One of the more exciting areas of development is in the manufacture and sale of concrete railway ties. With a \$40 million contract to provide concrete ties to one of Canada's major railways, we built a \$5 million plant in Edmonton, Alberta. Genstar is a 75 per cent partner in this venture with Richard Costain Limited of the U.K., one of the major European manufacturers of concrete railway ties.

The North American market, including Mexico, requires over 30 million ties per year simply to maintain existing rail lines, and any large scale movement to rail traffic as part of a national energy conservation program will boost demand considerably. The greater strength, longer life, and time savings in maintenance associated with concrete ties gives them a definite edge over wooden ties and we believe it is only a matter of time before North American railways adopt concrete ties, based on their own growing experience, as have other railroads in many parts of the world.

Cement

Genstar is one of two cement producers in Western Canada. Our five plants have a total capacity of

2,800,000 tons per year which will increase to 3,300,000 tons when our new \$100 million Vancouver plant goes into production in the spring of 1978. A further 500,000 tons will be added to capacity when the current \$70 million expansion of our Edmonton plant is completed in the early 1980's.

Cement is one of those basic commodities that will be in demand as long as man continues to build. Besides providing the capacity to supply growing markets in resource rich provinces like British Columbia and Alberta, our new Vancouver plant will operate virtually at capacity from the day it opens as a result of two 10-year contracts we have negotiated with Kaiser Industries and Lone Star Cement to supply them with a total of up to 450,000 tons of clinker and cement per year. These contracts are based on diminishing volumes so that we will continue to have adequate quantities available to supply the growth in our own domestic markets as well.

Looking to the future then, we are actively pursuing the development of our own alternate sources of energy — mainly coal. We have purchased a coal mine in the vicinity of our Edmonton plant and are investigating the possibility of converting all our Western Canadian plants to coal.

Construction

Our construction division, at least that part of it which specializes in the provision of municipal utility services such as roads, water, sewage, and lighting systems, will have a steady and continuing market in Western Canada providing facilities for our own housing developments and supplying these services to other developers. This business accounts for about 65 per cent of our own construction operations and will benefit indirectly over the next five years, from increased demand for housing related to developments connected with the construction and operation of the Alcan pipeline. This type of activity provides more steady income than heavy construction work and we have placed increasing emphasis on this aspect of the business over the past several years.

Our heavy construction component builds hydro-electric dams, generating stations and power lines, airports, autoroutes, and industrial plants. The construction business in Canada has been a bit slow recently but Genstar's construction division has continued work throughout the year on extensions to the Montreal subway system and the Edmonton rapid transit system as well as on the site of the Syncrude oil recovery plant at Fort McMurray in Alberta and on the Nelson River hydro-electric development in Northern Manitoba. Our own construction division is also the project manager and major contractor on our new Vancouver cement plant and on the expansion of our Edmonton cement plant. We are bidding on contracts for work on the James Bay hydro-electric project in Northern Quebec and on several other major construction projects in the resource development field.

Marine

Our Canadian marine operations have profited from a modest improvement in the forest products industry on the West Coast and increased activity in other areas as well.

Genstar has a total of 85 tugs and 290 barges. We have the largest tug and barge operation in Canada, located principally on the West Coast, but we also handle ship docking in the Port of Montreal, salvage, pollution control and tug and barge transportation on the St. Lawrence River and the Great Lakes.

Our West Coast fleet serves the specific requirements of customers for the transport of logs, lumber, woodchips, hog fuel, oil, chemicals, limestone, salt, industrial equipment, railway cars and highway vans, trailers and containers. Our equipment can be seen from Mexico to Alaska, and into the Arctic, as well as in Japan and other areas of the Far East.

We are a one-third partner in a company called Arctic Transportation Limited which has equipment and bases along the Mackenzie River and is thus in an excellent position to profit by the supply of transport services to the construction of the 740-mile Alcan gas spur line along the Dempster Highway south from the Mackenzie Delta.

Genstar Marine is well-positioned to take advantage of material shipping needs for the Yukon

and Alaska segments of the pipeline project. An estimated 500,000 to 900,000 tons of direct materials — including equipment, pipe, building materials, non-perishable food, and cement, originating in Seattle, Vancouver and Prince Rupert, will have to be barged north to points such as Haines, Skagway, Valdez, Seward, Whittier and Anchorage, Alaska. During the three to four-year construction period, local economic activity will increase throughout the area, further adding to potential tonnage.

Our international marine activities include joint-venture partnerships in providing tug and barge service to oil drilling and pipe-laying operations in the North Sea, operating a roll-on/roll-off trailer/container service by tug and barge from Marseille, France to Yanbu in Saudi Arabia and lighterage services — loading and unloading ships by tug and barge — in the Arabian Gulf. This transportation service from North America and Europe also includes a land trucking operation in Saudi Arabia to deliver the goods to their final destination.

Some of these activities are still in a start-up phase and others will be adversely affected this year due to reduced volumes as the Saudi Arabian government's five-year plan has now been extended to seven years. We are confident, however, that all of these activities will prove profitable in the future. One of the major advantages of this business is that equipment can be moved around the world to take best advantage of the opportunities available.

Chemicals and Fertilizers

Although prices for chemicals, and especially fertilizer products, have been somewhat depressed, we expect to reach the break-even point in these businesses this year after a loss of \$1.8 million for 1976.

The problems we experienced last year with the start-up of the new nitric acid facilities at our main plant in Ontario have, for the most part, been resolved, and we expect to show a reasonable profit next year if prices remain firm.

Investments

Finally, our investment category which includes our import/export operation in New York, venture capital investment in California, and development and management of revenue properties in Canada and

the United States, has experienced considerable change during the year. As part of a planned policy, we have sold many of our revenue properties for a total of more than \$100 million to date in 1977, and expect further sales to be completed before year-end. The proceeds from these sales together with the transfer of debt associated with the properties will result in a strengthening of our balance sheet at year-end.

What is left in this category are the more profitable investments, including shopping centers, office buildings and one hotel in Western Canada, our shopping center development operations in the Western United States, and our venture capital division in Palo Alto, California.

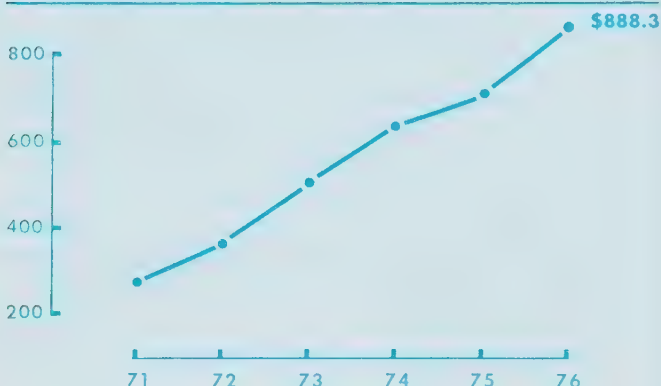
The venture capital portfolio includes positions in 37 companies at present. These investments are made in the expectation that, with our help in founding new companies, finding aggressive management, and helping through advice on a continuing basis, the investment will pay off over the long term. Genstar has helped start up and fund 17 such companies to date.

The Record

The key figures and statistics covering a full 10-year period of our operations are available in our 1975 Annual Report, but the five-year period to 1976 — using 1971 as the base year — provides more solid ground on which to judge our success because the industries we were in during 1976 were basically the same as those we were in during 1971, expanded through internal growth and through acquisitions.

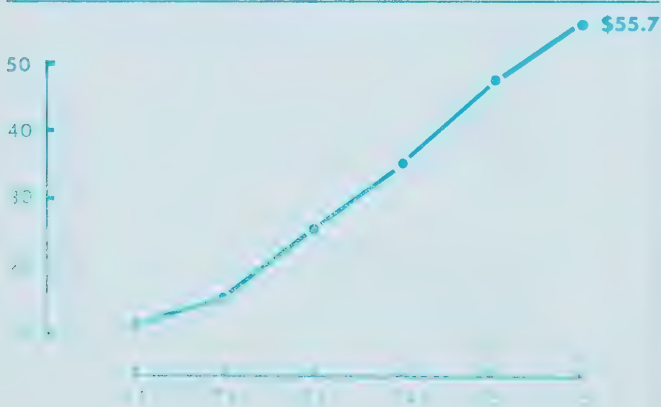
During this five-year period our revenues have grown from \$280 million to \$888 million last year.

Revenues (millions)



Net income during the same period grew to \$56 million from \$11 million.

Net Income (millions)



Shareholders' equity increased from \$127 million to \$316 million, and earnings per share from \$1.19 to \$4.63, an increase of 289 per cent.

Earnings Per Share

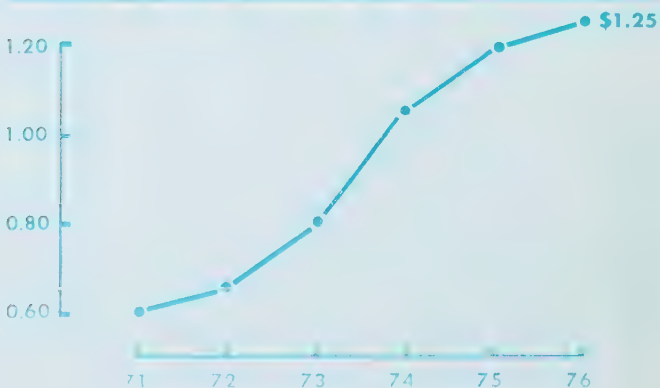


Five Year Compound Growth

So revenues for the five-year period to 1976 have increased at a compound annual rate of 26 per cent, net income at 39 per cent and basic earnings per common share at 31 per cent.

Dividends have also increased steadily over this period from 60 cents a share to \$1.40 currently.

Dividends: current rate — \$1.40



And to bring the record right up to date, our revenues for the first nine months of 1977 totalled \$730 million, an increase of 13 per cent over 1976. Net income amounted to \$47.4 million, and earnings per share rose to \$3.75, an increase of 11 per cent over the same period last year.

Our progress over this five-year period in various rating systems used by business publications is illustrated in the Financial Post survey of Canadian industrial companies which shows that we have advanced from 36th to 19th in the ranking by assets, from 37th to 22nd in terms of sales, and from 48th to 18th in terms of net income.

Financial Post Rankings

	GENSTAR LIMITED				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Assets	36	31	31	30	19
Revenues	37	32	26	26	22
Net Income	48	41	34	22	18

Growing at a compound annual rate of 20 per cent, our stock has performed rather well and this growth is an indication also that the market has shown increasing confidence in Genstar as an investment.

Despite this positive trend, however, when we compare Genstar's performance to the TSE Industrial Index, you can see in this table that our multiple has consistently remained below the TSE industrial average.

Multiple

	<u>TSE Comp. Index</u>	<u>Genstar</u>
1972	15.0	11.0
1973	11.6	7.7
1974	8.2	6.0
1975	8.5	4.7
1976	8.5	5.4

This has occurred despite the fact that during this period Genstar's fully diluted earnings per share grew at a compound annual rate of 29.5 per cent, more than double average 14.5 per cent rate experienced by the TSE industrials.

Moreover, the yield on Genstar common stock during this same period, exceeds continually the average yield of all the stocks in the TSE Index.

Yield

	<u>TSE Comp. Index</u> (percent)	<u>Genstar</u>
1972	3.0	4.2
1973	3.1	4.8
1974	4.7	6.4
1975	5.2	6.6
1976	3.2	6.5

Although Genstar, as a Canadian company, does not appear in the Forbes magazine rankings of U.S. industrial companies we have, for a number of years, ranked ourselves according to the same formulae used by Forbes.

Historical Rankings of Genstar in Forbes Surveys

	(All companies)				
	1972	1973	1974	1975	1976
Number of companies in Survey	780	851	859	929	963
Profitability Ranking (5 yr average)					
Return on Equity — Rank	597	542	362	225	170
Return on Total Capital — Rank	641	617	542	326	270
Earnings per Share 5-yr Compound — Rank	40	84	69	49	61

You can see from this table that the number of companies included in the Forbes survey has grown from 780 in 1972 to 963 in 1976, and that Genstar's position has improved

- from 597th in 1972 to 170th in 1976 measured by return on equity
- we have moved from 641st to 270th in return on total capital over the same period

- and though our earnings per share have grown steadily during this period, our position in the Forbes ranking system has fluctuated somewhat. Nevertheless, we have placed consistently in the upper end of the first quartile.

Historical Ranking of Genstar in Forbes Surveys

(Multi-Companies)		
	1975	1976
Number of Companies in Sector	20	21
Profitability Ranking (5-yr average)		
Return on Equity	3	2
Return on Capital	4	3
Growth Ranking (5-yr average)		
Earnings per share	1	1
Sales	3	1

In the Forbes ranking of 21 multi-industry companies — and these are available only for 1975 and 1976 — Genstar ranks

- second in five-year average return on equity, and first for the latest 12 months
- third in five-year average return on total capital but, again, first for the latest 12-month period
- first in five-year average growth in revenues and earnings per share.

Only 3M ranks ahead of us, and behind us in the list are some of the better known names in American industry: General Electric, Union Carbide, Sperry Rand, PPG Industries, Westinghouse, Allis-Chalmers, Olin Corp., etc.

How Have We Achieved It?

Ten years ago Genstar did not even rank among Canada's top 100 companies. Today, we are about 20th in size depending upon which measurement you choose to use.

What have been the main contributors to this performance?

- 1) Our motivation of management and our style of operating.
- 2) Our financial policies and mobility of resources.
- 3) Our strategic planning program.
- 4) A little luck which we translate as being fortunate enough to be doing the right thing, in the right place, at the right time.

1) Management

- Competitive salary structure with an incentive program based on performance to predetermined goalposts and the control of related capital employed to achieve these targets.
- Decentralization of operating authority and freedom to act within broad corporate guidelines to encourage an entrepreneurial spirit.

Genstar's growth has been achieved both internally and through acquisitions — and I will come back to this point a bit later. As a consequence, we have built a management team comprising both long-service Genstar people and top flight managers who joined us through the companies we have acquired over the years.

Genstar will continue its pursuit of acquisitions and our policy is to seek out good, profitable companies with strong management. Our acquisition criteria call for retention of the acquired company's management on the theory that a capable management team with a good track record can do even better with strong financial backing from Genstar and our management style and incentive programs are designed accordingly.

2) Financial

Over the years we have structured our financial policies carefully to meet the demands of the growth we had planned and have, in fact, achieved. Financial policies designed in the late 1960's were geared to provide the financing of a program of internal growth in several business areas and of making well-positioned acquisitions.

This table illustrates how Genstar increased its borrowings, capital stock and retained earnings over the period 1966-1976.

Capital, Retained Earnings, Borrowings:

	<u>1966</u>	<u>1976</u>	<u>Growth</u>
	(millions)		
Capital Stock and Contributed Surplus	\$ 66.4	\$175.3	164%
Retained Earnings	\$ 10.6	\$140.3	1224%
Total Short and Long Term Borrowings and Deferred Taxes	\$ 35.0	\$420.2	1101%

Our financial strategy is also based on the re-direction of internal cash flows from slower growth businesses to areas of higher growth and promising investment prospects.

We participate in a group of diverse businesses in a variety of geographical regions where growth rates and relative market and cost positions differ considerably. The size, then, of the current flow of cash generated in any given business — relative to the appropriate level of investment — varies significantly. Thus we have used the cash generated by some businesses to finance growth in others.

We are not married to any one business or group of businesses because we view our job as one of managing and directing the available resources to businesses with the best long-term potential.

Cash flow patterns in the period 1971-1975 demonstrate this selective mobility of resources. During this period our cement, and chemicals and fertilizer businesses, utilized far less cash than they generated. The excess cash generated was utilized to fund the investment needs of housing and land development, construction and marine activities. During the past two years, however, the cement business has become a net user of cash. The relationship between cash utilized and cash generated by business area — excluding the cost of acquisitions — is summarized in this table:

Cash Utilization Ratio 1971-1975



We said a few moments ago that we would return briefly to the subject of how Genstar achieved its rapid growth in the period since 1965, and we believe this slide illustrates that our growth has been more internal than through acquisitions, which is generally a surprise to some people who believe our growth has primarily been through acquisitions. The point here is that we believe we have proven that we are not only capable of making acquisitions to support growth, but that through aggressive funding of acquisitions and strong management we can grow at least as rapidly by way of internal expansion. Over the period 1970-1975, total net capital employed showed overall growth of 16 per cent, but 10 per cent — over half of this growth — was internal and only six per cent through acquisitions.

Net Capital Employed Indices: 1970-1975

<u>Business Area</u>	<u>Internal Growth</u>		<u>Total Growth Including Acquisitions</u>	
	1970	1975	1970	1975
Building Materials	100	268	100	371
Cement	100	81	100	181
Housing and Land	100	233	100	242
Construction	100	73	100	104
Chemicals & Fertilizers	100	127	100	127
Marine	100	325	100	441
Investments	<u>100</u>	<u>80</u>	<u>100</u>	<u>80</u>
TOTAL COMPANY	100	160	100	206
GROWTH RATE	—	10%	—	16%

Genstar's financial structure has undergone some dramatic changes in recent years. There had been no major public debt financing between 1968, when the last series of First Mortgage Bonds were issued, and 1975. During this period of rapid growth a relatively large amount of short-term and floating rate term debt had built up, and in 1975 a new debt instrument was developed and issued in three separate series for a total of \$125 million.

Our financial structure requires careful review. On the surface the leverage may seem unusually high for an industrial enterprise. However, when the structure is reviewed by line of business, reflecting debt/equity ratios customary in the various industries, as shown in the table on page 9 of our 1976 Annual Report, the overall ratios are reasonable.

The amount of our short-term and long-term debt was substantially increased in 1976 through the acquisition of Abbey Glen Property Corp. of Toronto. Real estate properties are normally highly leveraged and with the temporary heavy increase in our property portfolio these levels were not unexpected. The company has undertaken a major sales program to dispose of certain income properties and this will substantially reduce the ratios by December 31, 1977. To date this year properties have been sold for more than \$100 million and negotiations for the sale of a further \$40 to \$50 million of properties are underway and expected to be completed before year end.

3) Strategic Plans

Another essential element in the achievement of this performance is our strategic planning program. In addition to our annual profit plan, we update our five-year strategic plan every year and it includes a basic plan as well as an investment plan. The basic plan prepared by each operation includes an analysis of our strengths and weaknesses in present activities and what actions are required to achieve the objectives identified. The investment plan encourages a much broader approach and deals with major opportunities which are not necessarily a part of their present operations. A prime objective of the strategic plan is to identify potential acquisitions both by industry and by geographic region as well as to identify opportunities for expansion of established operations.

The Future

We said earlier that we would return to the more significant recent events which point to Genstar's future, principally in Canada and the United States. They are:

- Continuing resource development in the Western and Northern regions of Canada and specifically, construction of the \$10 billion Alcan gas pipeline.
- The maturity of our operations in Canada which will provide a solid base of earnings for the future and
- Opportunities for expansion of our U.S. operations.

The Alcan Pipeline

Our experience in Northern construction of all types leads us to believe that we can make a significant contribution to all phases of the \$10 billion, 2,700-mile gas pipeline construction project.

The areas of major involvement for Genstar include:

- The supply of materials and services by five divisions; heavy construction, building materials, cement, housing and land development, and marine transport.
- Project management in the co-ordination of materials supply for the pipeline builder to ensure that adequate quantities are available when required. Genstar could also manage and co-ordinate access road construction and maintenance, bridge construction, and support facility installations.

There will also be a large spillover of activity in the provinces of Alberta, British Columbia, and Saskatchewan from the pipeline construction which we expect will have a further positive effect on our housing and land development, cement, building materials, and construction activities.

United States

We believe our Canadian operations have matured to the point where further significant expansion of Genstar's existing businesses in our major market areas would yield only marginal returns. We are, therefore, actively investigating new business opportunities in other areas of Canada and at the same time, we are aggressively looking for investment opportunities in the United States which we believe can provide us with continued growth and expansion over the next decade.

We have been active in California since 1970 in the development of shopping centers and in venture capital investment and, since 1973, in house building and land development as well.

Our commercial property development activities have also grown and spread into the states of Washington, Oregon, Nevada and Texas. Profit from these U.S. operations was about 10 per cent of total in 1974 but will account for a significantly larger per cent of total this year.

Our planning and development people have pinpointed a number of business opportunities for us in the United States in some of the businesses we are already engaged in as well as in new business areas, any one of which could become a major new operating division of Genstar. We are looking at acquisitions in the areas of financial services, industrial mineral-based building products and natural resource service companies.

In the house building and land development areas, we believe there are excellent opportunities in the Western and Southern states. Increasing shortages and consequent higher cost of energy will most likely trigger a population shift from the colder northern areas of the continent to the warmer Westerly and Southerly areas where house heating requirements are minimal or non-existent. In the meantime, cities like Houston offer excellent markets for housing and we have just established a company to build homes there.

Our strategy for entering some of these markets would be to form a joint venture with an experienced, successful local partner for a period of time to give us an opportunity to test the market, develop our own assessments of the future and, if the market looks promising for the long term, to establish our own operations on site.

The joint-venture period would also give our own people a chance to establish local contacts and to assess the potential for entering other related businesses as we have done in Western Canada.

Conclusion

Although many of you have heard that Canada has significant problems — lack of new investment, for instance, high unemployment and continued inflation — Genstar operates primarily in Western Canada, an area which is not suffering to the same extent as the industrialized parts of Eastern Canada. The economic strength of Western Canada is based on energy, natural resources and agriculture, and the future of this part of Canada appears brighter. We have a strong industrial base in this Western Canadian market which will provide us with a solid foundation of earnings for the future.

In the early 1970's, we expanded our activities into the United States and, as we said a few moments ago, we expect a more significant contribution to our overall earnings from our United States activities in 1977. From this base of operations in the U.S., we see many areas in which we can pursue opportunities in businesses in which we have much experience. There are other areas as well where we believe there is considerable potential for Genstar.

We have built a strong management team of capable and experienced executives to ensure that Genstar will continue to provide an investment vehicle of well-balanced growth during the decade ahead.

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